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# China Report

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5 June 1985

# CHINA REPORT

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

ANALYSIS OF PRC'S CURRENT ECONOMIC SITUATION

HK130425 Beijing JINGJI YANJIU in Chinese No 3, 20 Mar 85 pp 31-36

[Economic Commentary by Yue Bing [1471 0343]: "An Analysis of the Current Economic Situation--and a Discussion on Further Smoothing the Economic Relations"]

[Text] How to correctly interpret and evaluate the current economic situation of our country is an important problem with which people in economic circles have been universally concerned with recently. A thorough comprehension of this problem is important for summing up the successful experiences of the readjustment and reform in recent years, consolidating and developing the extremely good situation, continuing to overcome the evils in economic life, and avoiding great mistakes in economic policymaking.

I.

In recent years, the economic situation in our country has improved year after year. A new situation has appeared in which the national economy as a whole has become coordinated, stabilized, and balanced and has steadily maintained a relatively high growth rate. According to statistics, by 1984, our country's gross industrial and agricultural output value had increased by 36.9 percent over 1981, averaging an annual increase of 11 percent of which the annual growth rate in industrial production was 10.7 percent. During this period, the development of the national economy had several noticeable and special features. First, the rate of economic growth far surpassed that called for in the Sixth 5-Year Plan which had called for "maintaining a 4-percent increase but striving for a 5-percent increase". Not only was this true with the gross value of industrial and agricultural output but also the growth rate of the gross agricultural output value, of the gross industrial output value, and of the national income all greatly surpassed the planned targets, making possible the fulfillment of the principal targets of the Sixth 5-Year Plan around one year ahead of schedule.

Second, the major proportionate relationships were in general coordinated and stabilized. The accumulation rate was generally maintained at 28-31 percent; the growth rate of industrial production and that of agricultural production are relatively close to each other, and a state of lopsided

development was not to be found; and the proportionate relationship between light industry and heavy industry was basically maintained on a 50-50 basis. This situation is greatly different from that in the past of earning a high growth rate by means of sacrificing agriculture and light industry, lopsidedly developing heavy industry and thus paying the price of wrecking the rational proportions among agriculture, light industry, and heavy industry.

Third, in recent years, the growth of the national economy at a relatively high rate was attained under the conditions of the normal progress and development of the national economy, fixing low targets in the plans, the products being basically marketable, and a steady improvement each year in the economic results. This bore a noticeable difference from the "Great Leap Forward" in 1958 which brought the great damage and a setback to the national economy and from the "Foreign Leap Forward" in 1978 which caused a drop in economic results and instability in the general situation.

The emergence of such a good situation in the national economy has by means been accidental. Concretely speaking, it has been the result of our earnest implementation of the policy of readjustment, restructuring, reorganization, and upgrading, and our firm insistence on opening to the outside and on internally enlivening the economy. Since the 3d Plenary Session of the 11th CPC Central Committee, first of all we have concentrated our efforts on readjusting the proportionate relationships among agriculture, light industry, and heavy industry and between accumulation and consumption. By means of appropriately lowering the accumulation rate, lessening the growth rate of heavy industry, augmenting the support to agricultural and light industrial production, and increasing the salaries and wages of staff members and workers, we have brought about an increase in consumption, expansion of the markets, and improvement in the standards of living of the urban and rural residents, thus basically reversing the prolonged state of a high accumulation rate, low consumption, and a serious imbalance in the national economy. The various kinds of reform such as enforcing the system of contracted responsibilities with payment linked to output in the countryside and taking the strengthening of the vitality of the enterprises as the central work in the cities and towns have greatly aroused the enthusiasm for production of workers in the cities and the countryside and liberated the productive forces. All this has effectively pushed forward the rapid development of the national economy.

The direct causes for promoting overall development of the national economy come from various sides. In agriculture, industry and, within industry itself the component parts such as light industry, heavy industry, basic industries, and processing industries, the various phases of their distribution and circulation influence and promote each other. Therefore, the overall development of the national economy is the result of the combined functions of diversified factors. These factors may be grouped under the following six categories:

1. Agricultural reform and the great development of the commodity economy in the countryside have laid a firm foundation for the development of the

national economy. Over the past 3 years, the gross output value of agriculture in the country averaged an annual increase of 11.6 percent, higher than the industrial growth rate. In 1984, grain output exceeded 800 billion jin, an increase of nearly 150 billion jin over the past 3 years; the gross output of cotton was 120 million dan, an increase of 60 million dan over 1981. In the countryside, all 5 industries or trades including agriculture, forestry, animal husbandry, sideline production, and fisheries, have been thriving and prosperous, a feat unseen since the founding of the PRC. The great development of agricultural production, not only has basically solved the food problem of the 800 million peasants but has also provided industry with abundant raw materials, broad markets, and plentiful funds and labor power. Without the great development of agriculture, the great development of the national economy is basically impossible.

2. Large-scale investments in fixed assets have promoted the development of industrial production. Increased investments in assets have played the role of promoting industrial production principally in the following three directions: First, they have sharply increased the demand for the means of production and directly stimulated increased production in heavy industry and in the machine-building industry. In the past 3 years, investments in fixed assets by enterprises under the system of ownership by the whole people have achieved a sustained increase on the scale of a gross value of over 10 billion yuan each year, registering a total of 49.3 billion yuan for the 3 years. Computed on the basis of the figures for capital input and industrial output (each 100 million yuan of investments require about 150 million yuan of industrial output value), this represents a demand of roughly 74 billion yuan of output value of industry, or about 40 percent of the newly increased industrial output value in the past 3 years. Second, large-scale investments in fixed assets have infused "new blood" into industrial production, newly adding a large volume of production capacity. Third, by means of technical transformation, technical progress has been promoted. Between the years 1981 and 1984, enterprises under the system of ownership by the whole people completed more than 136,000 technical renovation and transformation projects. The improvement in recent years in the output volume, varieties, and quality of the products of iron and steel, light and textile industries was mainly the result of the technical transformation of the existing enterprises.

3. The rapid rise in the purchasing power and the increases in consumption on the part of the urban and rural residents have played a positive role in promoting industrial and agricultural production. In recent years, as a result of the readjustment of the ratio between accumulation and consumption and reform of the distribution system the purchasing power of the urban and rural residents has increased rapidly. By 1984, the social purchasing power had increased by 52 percent over 1981, averaging an annual increase of 15 percent, of which the realized purchasing power, that is, the gross volume of the retail sales of commodities of society, averaged an annual progressive increase of 12.6 percent. Increase in consumption and expansion of the markets have posed even higher demands on agricultural and sideline products and on textile products and promoted the development of their production toward even high standards and at an even faster speed.

4. Large-scale advances in energy production have protected the development of the national economy. Energy is the nourishment of the national economy. In recent years, energy output in our country has greatly surpassed the 1.4 percent average annual increase called for in the Sixth 5-Year Plan. In 1982, 1983 and 1984, the increases in production over the preceding years were respectively: 5.6 percent, 6.7 percent, and 7.4 percent, effectively meeting the demand of agricultural and industrial production and economic development.

5. Development of the collective ownership economy has filled the national economy with vitality. In 1984, the gross industrial output value under the system of collective ownership was 166.2 billion yuan, an increase of 51.5 percent over 1981 and faster than the rate of increase of industries under the system of ownership by the whole people. The proportion of industrial output value rose from 21 percent in 1981 to 23.5 percent in 1984. Operations under the system of collective ownership such as commodities trade, the restaurant trade, service trade, construction industry, and the communications and transportation trades, have also greatly developed. This helped to increase production, promote circulation and enliven the economy as a whole.

6. Developments in external economic relations have given effective support to domestic production. In recent years, our export trade has grown rather rapidly. According to customs statistics, in 1984, the gross volume of the imports and exports of the whole country amounted to 120.12 billion yuan, an increase of 39.7 percent over the preceding year, or an actual increase of 19.6 percent, if changes in prices and exchange rates are taken into account, or deducted. Development of foreign trade has, on the one hand, opened up international markets for our domestic industrial and agricultural products and, on the other hand, has imported large quantities of urgently needed materials for domestic production and high-grade consumer goods, thus satisfying both production and consumption needs.

## II.

How should we evaluate, in the main, this extremely good situation in our national economy in recent years and what should be the forecast of its trend of development for a certain period from now on?

Some comrades believe that the national economy of our country has begun to enter into a takeoff stage of high-speed development. Their reasons are: First, in recent years our national economy has continued to advance at a relatively high speed; second, the main proportionate relationships have in general been coordinated; third, as a result of readjustment and reform, our national economy has been converted from the malignant cycle of planning determining production, production determining the markets, and the markets determining consumption to the benign cycle of consumption determining the markets and the markets determining production. They believe that these conditions denote that the whole economy has begun to possess flexibility and the functions of self-regulation. Hence, the crux of work should be how to maintain the momentum of takeoff and not to diminish the rate of economic development.

This viewpoint is worthy of earnest study. It is true that in recent years a very good situation has developed in the national economy and that this state of affairs will maintain a definite momentum for a certain period of time; however, it seems to be a little too early to say that the economy has entered the stage of takeoff yet.

First, viewed from the growth rate in recent years, although the gross output value of industry has shown an annual growth of 3 percent (that is, the growth rate in 1982 was 3 percent higher than 1981 and the succeeding two years exhibited more or less the same condition), it must be noted that in 1981, due to the readjustment, the absolute level was relatively low, while the rate in 1982 was not high and only in the past 2 years has the rate exceeded 10 percent. This kind of situation has appeared several times since the founding of the PRC. Hence, to take it as a sign of the economy having reached takeoff is unconvincing.

Second, seen from the production structure, the conditions for taking off are still lacking. At present, our production structure cannot fit in with production and construction and with the changes in the demand structure of consumption. Whether in light industry or heavy industry, there exists to varying degrees the situation of a high-speed increase in production on the one hand and a sizeable increase in stockpiling on the other. According to a survey of over 400 large state-run enterprises made by the relevant departments from January to November, 1984, the increase in industrial products kept in stock amounted to a value of nearly 290 billion yuan, an increase of 16.4 percent over the corresponding period in 1983, and exceeding the industrial production growth rate of 13.6 percent. The country's production of steel products increased by nearly 3 million tons in 1984. However, preliminary estimates show that the quantity of steel products held in stock would increase by nearly 2 million tons for the whole year. Of the commercial consumer goods held in stock, a preliminary estimate shows that about 20 percent belong to the category of products with stagnant sales while only around 15 percent could be marketed briskly. From this it can readily be seen that figures showing high industrial growth rates are somewhat inflated. At the same time, the irrational contradictions of the industrial structure have still not been basically solved and the extremely stringent condition in the supply of energy and of raw materials and in communications and transportation has become an important factor in restricting the rapid development of the economy. On the side of supply, the most conspicuous problem is that of electric power. In recent years, although rapid progress has been made in the volume of power generated in the country, the situation whereby the supply of electric power generally falls short of demand has not been eased. At present, in general, we still have a shortfall of over some 40 billion kilowatt-hours of electric power a year and enterprises in certain industrially-concentrated areas have not been running at full capacity due to the shortage of electric power. Moreover, the stringent and backward condition in communications and transportation can hardly meet the demands of a great development of the national economy, and the amount of goods awaiting transport have been increasing daily. Generally speaking, commerce, the service trades,



finance, and the postal and telegraph services are insufficient for realizing rapid economic growth. Under such circumstances, it is extremely difficult to maintain rapid economic growth.

Furthermore, viewed from the relations of production, reform of the urban economy has just begun. Many important economic relations such as prices and relations of distribution have not yet been put in good order. As to how to maintain firm macroeconomic control while simultaneously enlivening the economy at the microeconomic level, many problems still have remained unsolved in various areas such as planning, currency, and circulation. In reality, the large state-run enterprises have not been enlivened. The claim that the national economy has entered the takeoff stage is obviously incorrect as these major problems concerning relations of production are still unsolved, a new economic system has not been installed yet, and the national economy has not yet entered a benign cycle.

From all this it can be seen that although the current situation is a little better than any other period in the over 30 years since the founding of the PRC, nevertheless, due to the economic relations not having been put in good order, and the material foundation not being sufficiently firm, economic development naturally cannot be exceedingly stable and cannot long maintain a high growth rate. Therefore, to put it frankly, at present the national economy has only begun to proceed toward a benign cycle and is in the preparatory stage of a takeoff of economic development. How long this preparatory stage will last principally depends on whether or not we have smoothed out our reform and our economic relations and whether or not a firm material foundation has been laid.

### III.

How is it possible, on the basis of maintaining the momentum of the growth of the national economy, to proceed further to smooth out the economic relations, lay a firm material foundation, and lead the national economy to a stage of sustained, stable, and rapid development? Apart from continuing to strengthen the pivotal construction projects centering on the energy (particularly electric power), industry, and communication sectors, and actively doing a good job of making the existing enterprises achieve progress in technology and of the technical transformation of the old enterprises, at the moment we should, on top of taking a step further to put the economic relations in good order, and simultaneously with microeconomic enlivening, proceed further to strengthen macroeconomic control.

As mentioned above, the economic situation we are currently facing is as follows: On the one hand, as a result of the readjustment and reform, the enterprises have begun to be enlivened and production has developed rather rapidly; and, on the other hand, following the further enlivening of the economy, certain new macroeconomic problems have appeared. Apart from the above-mentioned inability of the industrial structure and product structure to meet the demands of the changes in the structures of production,



construction, and consumption and consequent need for further readjustment, the outstanding problem appears to be the sharp increase in the volume of consumption funds, in the investments in fixed assets and in the release and issuance of banknotes, coupled with the danger of their getting out of control to a certain extent. According to statistics, over the past 3 years, the gross volume of consumption funds averaged an annual increase of 13.3 percent (the increase in 1984 is estimated to be around 22.3 percent). This greatly exceeds the increase in industrial and agricultural production and in national income (averaging an annual increase of 10.3 percent). Investments in fixed assets have progressively increased on a scale of over 10 billion yuan each year, of which the increase in 1984 amounted to 20.8 billion yuan, or a growth rate of 21.8 percent, the highest net increase in investments ever recorded for a single year. As a result of the rate of increase in consumption funds and in fixed asset investments being too high, the problem of the distribution of the surplus national income, a problem which originally has been in existence, has been further aggravated, bringing about at the same time a sharp and uncontrollable currency inflation. In their daily lives, people have felt a stringency in the supply of commodities and an instability in market prices. This is a reflection of this type of problem.

Hence, starting from the actual conditions of the moment, and simultaneously with truly enforcing at the grassroots level and in the enterprises the measures of reform found to have been effective and designated by the party Central Committee and the State Council and thus further enlivening the economy, we should pay close attention to setting up as soon as possible a new and effective macroeconomic control mechanism. It is thus necessary to grasp well the following lines of work:

First, it is necessary to cut down the growth rate of the economy. This is the prerequisite condition for establishing the new mechanism as soon as possible. Growth of the national economy at a relatively fast speed is in itself a good thing. It can increase the strength of the national economy, and this provides a reliable material guarantee for improving the people's standard of living and realizing the four modernizations. However, for the sake of completing the further readjustment of the industrial structure and the product structure, carrying out the reform of the economic system in depth, and setting up as soon as possible a new economic control mechanism, we should appropriately slow down to a certain extent the rate of economic development. Both in readjustment and in reform, it is necessary, first of all, to have a relatively magnanimous and relaxed economic environment. Take for example the readjustment of the industrial structure. At present, in our country the industries that have fallen behind are the mining industry, electric power industry, transport industry, and building industry. Relatively speaking, the production capacity of our processing industries is large. It charges high prices and yields large profits. If we one-sidedly seek speed in the increase of the output value (particularly industrial output value), the inevitable result is that a large volume of capital funds, materials, and manpower is put into the processing industries. By so doing, not only will we be unable to fulfill the readjustment tasks but the

imbalance in the industrial structure will also be aggravated. An important reason for the fairly good results produced in 1981 was that we had slowed down the rate of growth of the economy, reduced investment, balanced gross demand, and gross supply, and created the conditions for the readjustment work. Moreover, viewed from the side of reform, if sufficient leeway is not allowed and comes very close to each other, gross demand and gross supply readjusting the various kinds of economic relations and setting up a new economic mechanism will be very difficult. For example, the key points in the current economic reform are readjusting the irrational price structure and reforming the price control system so that the price mechanism is full of flexibility, but, under the exceedingly tense supply and demand conditions, upon slightly loosening the control, flexible demand will immediately pull the prices upward and produce a series of chain reactions, making it difficult for us to step in. Hence, appropriately slowing down the economic growth rate is a prerequisite to our further fulfilling the readjustment and reform tasks and setting up a new control mechanism. Naturally, by appropriately lowering the rate we do not mean that the economic growth rate should be lowered to a large extent. Generally speaking, the economic growth rate should be maintained at the level of around 10 percent while investments in fixed assets should not further increase on a large scale and the increase in consumption funds should be suitably restricted. By so doing, economic life can be relaxed and financial power and material resources can be spared to provide support for reform. Viewed from the short-term and on the surface, the speed can be reduced to a certain extent, but taking a long-term and fundamental view, the more solid and down-to-earth the rate, the more beneficial it will be to the rapid development of the economy. At the same time, we may consider gradually using the gross national product to replace the gross industrial and agricultural output value as the overall evaluation target for measuring the economic development. This will remove the tendency of the departments, localities, and enterprises of unilaterally seeking a speedy increase in output value.

We should tightly grasp the work of reforming the banking system and strengthening financial control. This is the crux of setting up a new macroeconomic regulatory mechanism. In order to enable the national economy to develop in a sustained, stable, and coordinated manner, the key lies in setting up an effective macroeconomic control mechanism. Under the planning control system established in the early 1950's in our country, the control tasks of the macroeconomy were principally taken up by the State Planning Commission and the Finance Ministry. The former made decisions on investment and consumption arrangements, the latter helped in arranging for funds and organizing their distribution while the banks served as the national treasury. Since 1979, following the reform and the further enlivening of the economy, the state gradually transferred funds originally under the control of the State Planning Commission and the Finance Ministry to the banks. Transfer of funds from the Finance Ministry gradually decreased while bank loans steadily increased. Meanwhile, funds under the free control of the localities, enterprises, and urban and rural residents have increased. Whether or not these funds can be properly controlled so that their circulation is in line with the rational

demands of economic development has an important impact on maintaining the comprehensive macroeconomic balance and promoting economic development. At the time when we discussed the problem of setting up a macroeconomic control mechanism we were frequently inclined to bring the role of the price mechanism into full play. In reality, viewed from the angle of strengthening overall control, bringing the role of banks into full play and controlling and using funds well are much more important than the readjustment of prices. In the final analysis, the regulatory role of prices is realized through the circulation of funds. If only we can, through the channel of the banks, grasp the main scale and general direction of the flow of funds, we can, in the main, maintain macroeconomic harmony and stability.

In recent years, the banking structure of our country has gone through various attempts at reform. After 1983, we began organizing a central bank and have done much work in improving investment results and strengthening overall control, achieving certain definite results. But, viewed as a whole, all this goes against the demands of the development of the economic situation. This is shown, on the one hand, in the various specialized banks and banks at the grassroots failing to enliven and to mobilize and centralize the vast amounts of idle social funds and make them maintain a rational direction of flow and, on the other hand, in the loss of control over capital movements and in the issuance of banknotes far in excess of the rate of the economic growth. The key to the solution of this problem lies in breaking the two cases of "everybody eating from the same big pot", that is, the case of "everybody eating from the same big pot in regard to funds within the banks" and the case of "everybody eating from the same big pot" in regard to the use of credit and loan funds outside the banks. Hence, under the banking control system, it is necessary, first of all, to separate government from enterprise functions. The central bank, as the state's leadership organization in the management and control of financial enterprises of the country, should, by means of such measures as formulating the state's credit and loan policy, compiling credit and loan plans, regulating interest rates, and readjusting the reserve ratio of deposits, take up the responsibility of managing, guiding, and coordinating national financial affairs and the operations of the specialized banks, as well as the tasks of regulating and controlling the money supply. The specialized banks, being enterprises engaged in financial activities, should gradually enforce independent accounting, be solely responsible for their own profits and losses, ensure the fulfillment of the state's credit and loan plans, and abide by the state's leadership in monetary policy. In order to solve the problem of the loss of control over the issuance of banknotes, we may consider withdrawing the power of currency issue to a higher level (such as the State Council or the Financial and Economic Commission of the NPC Standing Committee). Loans that are outside the plans and are issued by banks at various levels should be guaranteed by correspondingly increasing bank deposits and no loans too far out of line with the deposits should be granted. This will enable the banks at various levels to absorb more deposits and make them earnestly take up the burden of doing a good job in both managing and using funds. Next, in order to break the situation of "everybody eating from the same big pot" regarding

the loan and credit funds of banks and to basically cure the "hunger disease for investment", it is necessary that debtors bear the full responsibility for repaying loans. In the case of enterprises unable to repay loans, not only is it necessary to investigate the economic, administrative, and legal responsibilities of their leadership, including measures ranging from deduction of salaries, demotion, or summary dismissal from posts up to imprisonment, but also permission should be given to the creditor banks, in company with the relevant departments, to jointly liquidate the bankrupt enterprises which have failed to repay their loans. Only by means of these stern measures is it possible to bring the role of banks into full play in macroeconomic management, thus helping to avoid the danger of credit inflation.

Third, strengthening the construction of legal codes and maintaining the necessary administrative intervention constitute important conditions for economic stability and for ensuring the smooth progress of reform. In establishing a new macroeconomic control mechanism and doing a good job in achieving overall macroeconomic balance, apart from resorting to various economic measures and displaying the regulatory role of economic levers, we must still maintain the administrative measures and establish and perfect the necessary legal status. Under the original system, the various kinds of economic relations and the economic interests of various sides principally relied on administrative control and administrative methods for their coordination. It was difficult for these measures to handle well the relations between the state and the enterprises, among various enterprises, and between the enterprises and their staff members and it was difficult to bring the regulatory role of the law of value and of the economic levers into full play. However, simultaneously with emphasizing the role of economic measures in the new system, we cannot proceed to the other extreme of completely ignoring the role of administrative measures nor altogether do away with legal measures. Viewed from the special nature of the various measures themselves, economic measures appear to be rather "soft", and work poorly with regard to the time element since results generally cannot be achieved until the passage of at least several tens of days, sometimes as long as several months, or tens of months, while, in the interval, many changes may have happened to the enterprises. On the contrary, the administrative and legal measures are "harder", of a compelling nature, and can achieve good results when handling problems of the moment and of an emergency nature. Thus, they have their separate uses and different conditions. In particular, concerning problems which economic measures cannot solve for the moment and which have a bearing on the national economy, we should not be lax in intervening administratively. In the past, we stressed the need of enlivening the economy and of delegating power to the lower levels. This was correct. But reforms should proceed step by step, delegating of power should also be by steps, and enlivening of the economy should also go by steps. We should never rush headlong into mass action. At present, we are in the period of the transition of the old system into a new system. The new macroeconomic management mechanism has not yet been set up and if we immediately delegate all power downward while the economic measures are still unable to perform well their regulatory functions, serious problems are bound to arise. In a way, it may be said

that they have constituted the principal causes of the recent phenomena of inflation of the consumption funds, inflated investment in fixed assets, and excessive issuance of banknotes.

Because of historical reasons, economic statutes have been a weak link in the formation of our country's legal system and sorely need to be strengthened. In particular, certain basic economic statutes, such as laws on enterprises, banking laws, labor law, investment law, bankruptcy law, and so on, should all be speedily studied, formulated, and promulgated as soon as possible, so that the economic relations between the state and the enterprises, among enterprises, and between enterprises and their staffs are put in good order and the economic interests and obligations of various sides are definitely fixed. This will make it possible for various kinds of economic activities to proceed according to rules, and to abide by laws, and also make it possible to severely punish offenders who have violated discipline and the legal statutes. At the same time, it is necessary to strengthen administrative supervision such as employees of government organizations doing private business, using their power and authority to seek private gains, excessively releasing bonuses, wantonly granting subsidies in money and in kind, purchasing and reselling goods urgently demanded in the markets, speculating and profiteering, raising commodity prices in violation of state policies, committing falsehoods to cheat the state, doing harm to the consumers, and so on and so forth. Thus, by combining the two kinds of measures and letting each display its superiorities, we can overcome the pessimistic elements and arouse the active and positive forces, guide the reform to proceed in depth, and promote an even speedier development of the national economy.

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JOURNAL ON REFORM OF GRAIN CIRCULATION SYSTEM

HK070757 JINGJI YANJIU in Chinese No 3, 20 Mar 85 pp 26-30

[Article by Wu Shuo [0702 4311] of the Commercial Economics Research Institute under the Ministry of Commerce: "A Great Strategic Reform of the System of Grain Circulation"--written February 1985]

[Text] The Central Committee of the CPC and the State Council have decided that, beginning this year, peasants will no longer be subject to assigned purchase tasks for agricultural products, except in regard to certain products. In accordance with the different situations, purchases will be made through contracts or through market purchases. This is a strategic reform of the rural circulation system. If we say that implementing the responsibility systems which link remuneration to output was the first great reform in our nation's rural areas, then this is the second great reform. This reform puts the production, allocation, transfer and consumption of agricultural products onto the track of the planned economy. It will necessarily have a great influence on the further enlivening of the rural economy, on rationally readjusting the agricultural industrial structure, and on promoting the continued development of agriculture. Below, I am only going to provide a few simple ideas on several problems relating to the reform of the grain circulation system.

The Necessity of Reforming the System of Unified Grain Purchase

The unified purchase and marketing of grain, which was implemented 32 years ago, proceeded from the actual situation of the times, and was decided upon after grain production development had been forecast for a certain period in the future and various methods for resolving the foreseen problems were weighed up and assessed. The actual situation at the time was as follows: There was a blockade by the imperialists; domestic privately-owned industry and commerce had not yet undergone socialist transformation; we had started to refer to the theory and models of the Soviet planned economy in engaging in economic construction; and on a small-scale rural economy base we were giving precedence to socialist industrialization with stress on heavy industry (this was the major factor).

In terms of grain, there was a contradiction, with growth in commodity grain production not meeting the growth in demand. It was forecast at the time that, based on the principle of voluntary participation by the peasants,



cooperativization would be achieved in about 15 years, and then it would be possible to gradually develop the agricultural forces of production, and raise the output of agriculture. The state would then obtain large quantities of grain and other agricultural products. The unified purchase and sale of grain was a special policy intended to provide a long-term stable supply of grain on a small-scale agricultural economic base. It was also a special economic policy for handling the relationship between the state and the people, under those special historical conditions.

When the country was deficient in grain, unified purchase and sale played a positive role in rationally allocating the grain in balancing supply and demand, and in regulating surpluses and deficiencies. It guaranteed everybody's grain rations so that all had grain to eat. Unified planning with due consideration for all concerned was also implemented with regard to grain use in other fields. Appropriate arrangements were made and the sales price remained stable for a long period in accordance with the low wage situation. In an important respect, this safeguarded the stability of the people's lives and assisted various projects of socialist construction. In analyzing it historically, we should say that there were many reasons for the institution of unified purchase. In the historical conditions of the time, this was necessary and it also achieved the anticipated results.

The system of unified purchase and sale of grain lasted 32 years. During this period, especially in recent years, the disadvantages of this system became increasingly obvious. They became increasingly serious until they affected the development of rural commodity production and the improvement of economic results. The production of commodity grain was divorced from market demand and this was a major drawback of the system of unified purchase of grain. Initially, in order to cut off the capitalist relationships between the urban areas and the rural areas, the relationships between the grain producers and the market were broken. Thus, the grain producers gradually became divorced from the market. For a long period, the abnormal situation existed where the peasants planned just what the state planned, and the amount planted was precisely as the state had planned. On the other hand, the state purchased those products the peasants had planted, and purchased the amounts the peasants had planted. The people then purchased whatever was sold by the state, which in turn was whatever had been purchased from the peasants. In the situation where grain was in short supply, the stress placed on quantity, rather than quality and variety, was bearable. Now grain abounds and people, after satisfying their needs in terms of quantity, are increasingly stressing quality and variety. The problem whereby the quantity of commodity grain has increased, but where quality is not high and varieties not numerous has become prominent. The commodity grain which is accumulated in government storehouses and in the hands of peasants is generally that grain which is of inferior quality and which is difficult to sell.

Another great disadvantage of the system of unified purchase of grain is that the law of value is not stressed. For a long period, the unified purchase price of grain deviated from its value and did not reflect changes

in the supply-demand relationship or changes in currency values. In the earliest period of unified purchase and sale of grain, the principle of exchange at equal value was stressed. However, from the latter part of the 1950's, and especially in the middle of the 1960's right up to the 3d Plenary Session of the 11th CPC Central Committee, the state price for grain subject to unified purchase was too low. Exchange was not carried out at equal value and a situation where money was lost in planting grain resulted. Added to this was the price scissors for industrial and agricultural products which had been left over from history, and thus the peasants had to put up with even greater losses. This could not but greatly affect the enthusiasm of the vast number of peasants for developing commodity production of grain. After the 3d Plenary Session of the 11th CPC Central Committee, the state increased, by a large margin, the price paid for grain subject to unified purchase. The social labor productivity rate increased and the unit cost of commodity grain decreased. Thus, the general level of prices for commodity grain became more rational. However, initially, so that the grain departments could monopolize the commodity grain business, various circulation price differentials were abolished. Later, a pricing subsidy policy was adopted in the unified marketing of grain, so that the policy of low wages and low prices could be maintained. Thus, in the purchasing and sale of grain there appeared the double-track system of inverted prices. These irrational grain circulation prices not only increased the burden on state financial departments in the provision of subsidies, but also restricted the expansion of grain sales and markets. This made the adjustment of excesses and deficiencies in various areas, and circulating commodities difficult. This was also not beneficial to the transformation of grain or to encouraging grain producers to raise the quality of their grain. In addition, the state was unable to use the market mechanism to regulate the production, circulation, and consumption of commodity grain.

Another drawback of the system of unified purchase of grain was that all the users were brought into one national plan for grain distribution. In exaggerated terms, it was a system where "All grain comes under my management and I arrange meals for all." All of the commodity grain and even some of the peasant's subsistence grain was handled in a unified way by the state, and thus for quite a long period there was the situation of "excessive grain." The situation where villages were sold more grain than they needed also occurred. In this way, state plans actually included products for which there was no demand. In the last 2 years, there has been abundant grain, and the great majority of commodity grain has been purchased by the state in a unified way. The state purchased whatever peasants had for sale in whatever quantities they offered it. The peasants took some of the fine quality grain to sell at the agricultural markets or to sell at negotiated prices. The remainder of the grain was sold to the state. Thus, the state plans actually included grain which was completely unmarketable. This not only took up the funds and bank credit of state-run enterprises handling grain commerce, affected the turnover of social funds, and produced social waste, but provided erroneous market information to the peasants.



The implementation of a planned commodity economy requires that the rural producers orient themselves towards market demands, and rely on state planned guidance and the utilization of the market mechanism in the regulation of the amounts, variety, and quality of grain products as well as in improving economic results. State planned management of commodity grain should change from the situation where administrative measures are used to where economic measures are used. Things should be handled in accordance with the law of value. All these measures are aimed at abolishing the system of unified purchase of grain, and expanding the role of regulation by market mechanism under the leadership of state planning.

### The Time is Ripe to Abolish the System of Unified Purchase of Grain

We now have the conditions for abolishing the unified purchase of grain. The time is now ripe.

Since the 3d Plenary Session of the 11th CPC Central Committee, the rural areas have implemented the responsibility system where remuneration is linked to output, and the correct economic policies. Our production of ration grain and commodity grain has seen new trends. After 4 years of quantitative change, finally in 1983 qualitative changes were achieved. In 1984, this fine tendency continued. The long-held hopes that the production of commodity grain would grow to exceed demand were finally realized. This was an historical turning point in the development of our nation's grain production. The most outstanding manifestations of this new tendency are as follows: 1) The great increase in the grain production level. In 1983, the total production volume of grain was 774.5 billion jin, a per capita average of 759 jin and a per mu production average of 453 jin. Comparing this to the bumper harvest year of 1979, in only 4 years the total production volume grew by 110.3 billion jin, or 16.6 percent. The per capita increase in production was 74 jin or 10.8 percent. The increase in average per mu production was 82 jin or 22.1 percent. In 1984, total production volume reached 800 billion jin, a per capita average of 800 jin, and a per mu production average of 480 jin. This far exceeded the planned production levels. 2) The production of commodity grain is already in the dominant position. In 1983, the number of counties which sold 100 million jin, or an average of over 200 jin per person, of excess purchase grain to the state rose to 943. The amount of excess purchase grain sold to the state totalled 80 percent of total state grain purchases, a per capita average of 230 jin. In 1979, 579 counties had reached this level, and excess purchase grain sold to the state totalled 60 percent of the national total, a per capita average of 275 jin. The places where much grain was sold at negotiated prices, or sold at agricultural markets, and where it was "difficult to sell grain" were in general these same areas. The level of peasant's retained ration grain in these areas was already quite high, and thus the increased production, apart from some which went to increasing fodder stores, was all commodity grain. The national grain production figure for 1983 was an increase of 65.5 billion jin over the previous year. Of this, the increase in commodity production of grain totalled 62.8 billion jin or 96 percent. Thus, we can say that commodity production of grain is already in the dominant position.

3) The quite large increase in the commodity rate for grain. In 1983, the commodity rate for grain (not including commodity exchange between peasants) was 31.7 percent. In 1984 it was 32 percent. Not only did this reverse the fluctuations in the commodity rate for grain in the 1970's when it fell to below 21 percent, but it also broke through the 24-25 percent level of 1981 and 1982. We can sum up the above three points by saying that a structural surplus has occurred in the domestic commodity grain market. If we compare 1983 with 1982, we see that the increase in the total supply of domestically-produced commodity grain was 5.4 times the growth in demand. The total excess of supply over demand in the domestic grain market reached 30 billion jin. In 1984, this situation continued to develop, resulting in the state's grain departments being overstocked with great amounts of commodity grain which could not be sold. Also, in many areas peasants had grain on their hands which they could not sell. The state's negotiated purchase price and the prices in the agricultural trade markets all dropped and were basically the same as the excess purchase price, even lower in some cases.

The grain production situation in 1983 showed that through several years of effort, the rural commodity economy had developed and that the speed of grain production development had reached a level where it could guarantee the further development of the national economy. The situation where the increase in commodity grain production lagged behind the increase in demand has been basically reversed. This shows that the economic base and material conditions for abolishing the system of unified purchase of grain are now ready. In this situation, in changing the unified purchase of grain into purchases based on contracts, we must ensure that measures are appropriate and management is methodical. In this way, the level of grain producers' prices will not rise and fall by large amounts. Rather, the price of grain will gradually approach its value, and will fluctuate within the limits of its value in accordance with changes in the market supply and demand. The various types of grain circulation price differentials, especially regional differential prices and seasonal price differentials will become wider and will become increasingly rational. These are the economic conditions necessary for utilizing the market mechanism and conscientiously regulating the production, circulation, and consumption of commodity grain.

We are now prepared, both on the theoretical level and the ideological level, for the abolition of the system of unified purchase of grain. The socialist road with Chinese characteristics opened up by the 3d Plenary Session of the 11th CPC Central Committee has already reached to people's hearts. Over the last few years, people have liberated their minds, sought truth from facts and strived to get rid of ossified patterns and to break through obsolete ideas. They have made beneficial explorations in building a socialist economic system which is full of life and vigor and which has Chinese characteristics. The "Decision on Reform of the Economic Structure" put forward at the 3d Plenary Session of the 12th CPC Central Committee clearly points out that a socialist economy "is a planned commodity economy based on public ownership," that "the full development of the commodity economy is an unavoidable stage in social economic

development, and is a necessary condition for realizing our nation's economic modernization," and that "implementing a planned economy, utilizing the law of value and developing the commodity economy are not mutually exclusive, but form a unity. It is wrong to set them in opposition." This provides the theoretical base and makes good ideological preparation for abolishing unified purchase of grain.

Summing up the above, we can say that the time is now ripe for abolishing the system of unified purchase of grain.

#### Purchase Fixed by Contract is a Good Form of Planned State Guidance

The purchase of grain fixed by contract is a way by which the state guides commodity grain production and business. Through the participation of state-owned grain companies in purchasing and sales, the state will be able to regulate the market. Contract purchase is still a part of the planned circulation category, but it mainly relies on economic measures to achieve its planned purchases of commodity grain. Contract purchase is a good form which can combine the autonomy of rural producers with the state's grain purchase plans.

The state has decided to no longer issue mandatory plans for grain production, but to implement guidance planning. In orienting it to the over 180 million grain-producing rural households spread over the 9.6 million square kilometers of the country, and orienting it to the 1,000 central commodity grain-producing counties, the only way to implement this guidance planning is through utilizing the role of economic levers. The state must not only carry out planned guidance of the grain market by having state-owned grain companies engage in the grain trading business, and by safeguarding the price system. Its aim will be the realization of: A basic balance between the production of grain and the need for grain, and between the supply and demand for commodity grain; a general stability in the grain price level; and concurrent consideration for the economic interests of the grain producers, the grain traders, and the consumers. This is to say, the aim of planned guidance is, on the one hand the overall control of proportions in grain production, and on the other hand the carrying out of exchange at equal value. In this way, the process of agricultural reproduction can go round and round, developing from one peak to another. The state's method of planned guidance relies firstly on information guidance, and secondly on purchases by contract. In future, the state will, through various channels, have to supply grain producers with estimates of the social production of and demand for grain, estimates of supply and demand in the commodity grain market (divided by region and by variety) and information on the trends in grain price changes. The state will have to publicize the state's grain purchase plans for the year and the contract purchase price, and will sign contracts with the rural producers through the state-owned grain companies. Hereafter, the state-owned grain companies will be the biggest and most important purchasers of commodity grain. The amounts, types, quality, and prices of the state's grain purchases will play a decisive guiding role for the rural production units and rural households in their production and trading in grain. Contract purchase will be beneficial in feeding back

information on market demand for grain to the grain producers and also in transferring information on grain production to the consumers. This will result in commodity grain production being linked up with market demand, thus achieving state planning through the role of the market.

This contract purchase of grain is the most important and most effective way for the state to exercise planned guidance over grain production and trading, and for guiding the grain market. It is also a dependable guarantee for the steady development of commodity grain production.

#### Pricing is the Basic Means in Implementing Contract Purchases

In accordance with the economic contract law, purchase contracts should be signed, based on the principle of voluntary participation after there has been full consultation. The contracts should be notarized by industrial and commercial administrative management departments. Once a contract has been signed it will have the binding force of law. The two sides involved must respect the rights and obligations stipulated in the contract.

The rural production unit or its representative organ will, in accordance with the stipulations of the contract in regard to the amount, variety, quality, and standard, hand grain over to the state-owned grain company, or its representative organ, within a certain period and at a certain place. The state-owned grain company will, in accordance with the stipulations of the contract, purchase the grain, check, and accept it in a timely way and hand over payment. It will also provide all kinds of convenience. Purchase contracts of a production nature can also stipulate that the state-owned grain company will provide money advances, supply industrial products for agricultural use, agricultural technology, production service, and so on. In brief, whatever is stipulated in the contracts must be carried out to the letter by the two sides.

After abolishing the unified purchase of grain, how will the state-owned grain companies be able to rely just on the voluntary participation of the rural households in signing grain purchase contracts? They will rely mainly on economic means, and especially on pricing measures. Under commodity economy conditions, the agricultural producers will firstly or mainly pay attention to economic results. This will determine the planting plans for agricultural production units. The operational results of the rural production units is more often than not determined by the prices of agricultural products in the markets. Thus, in a sense it can be said that the market prices which reflect changes in supply and demand will provide guidance to the agricultural producers in important operational decision-making. Pricing is the most effective regulatory measure. A rational grain purchase price is an important condition for the overall, proportional development of commodity grain. The amount of commodity grain produced by rural production units and by rural households, and the amount of grain for which purchase contracts are signed with state-owned grain companies, will both change in accordance with the grain price level. Thus, whether or not the grain purchase contract price is close to the market price will be very important in the signing of contracts between state-owned grain companies and agricultural production units, and in the

carrying out of these contracts. This should not be treated lightly. We should formulate rational purchase contract prices. Although the purchase contract price will not be spontaneously created by the market, it is necessary to refer to current market prices and to estimate what the supply and demand situation will be and whether prices will have risen or fallen by the time of delivery. This is one aspect. The other aspect, which is even more important, is that it is necessary to conscientiously utilize the law of value, and on the basis of production costs, changes in supply and demand, and changes in the value of currency, to stipulate and adjust grain prices. Whether this method of formulating the purchase contract price is able to reflect the value of the grain and is able to accord with the principle of exchange at equal value, must await experience in practice. This will be manifested through the role of the market and determined through changes in market supply and demand. Readjustment will then have to be carried out on that basis. Through several repetitions, the contract price will gradually come to reflect the value of the grain. Grain prices set in this way will quite authentically reflect changes in social labor productivity and changes in market supply and demand. Of course, this will inevitably be welcomed by the commodity grain production units which receive these prices. Thus, we can say that rational grain purchase price is the basis for the signing of purchase contracts between state-owned grain companies and operationally autonomous agricultural production units.

In the initial period of purchase through contracts, as a way of investigating a rational grain price, it is possible to adopt the method of announcing the purchase plans and the contract reference price before the sowing season commences. On this basis, the agricultural production units and agricultural households can make calculations as to their commodity grain production plans and the amounts they will sign contracts for. This production information will gradually be fed back to the state grain purchase departments. If the commodity grain production plans of the agricultural production units and agricultural households, and the amounts they are planning to sign contracts for and sell to the state-owned grain companies, accord with state purchase plans, it will show that the announced purchase plans and contract prices are rational, and accord with the actual situation. It will mean that the prices will have been accepted by the agricultural production units and agricultural households, and that they are playing a positive role in regulating the production of commodity grain. It will then be possible to sign the concrete purchase contracts. If the commodity grain production plans and the amounts they are willing to sign contracts for is greater or less than the purchase plans, that will show that the announced contract reference prices are too high or too low. It may also show that the contract plans are too small or too large. It will thus be necessary to appropriately adjust the contract price and purchase plans. Following readjustment and revision, the purchase plans and the contract price can be made public again, and will become the base on which state-owned grain companies sign purchase contracts with agricultural production units and agricultural households.

This method is one of combining consultation from top to bottom with consultation from bottom to top. It is thus able to better combine the

macroeconomic interests of the state with the microeconomic interests of the agricultural households, and better able to combine state planned guidance with the production operations of agricultural households. This is precisely what the planned commodity economy needs.

From now on, the transfer of commodity grain ownership will be achieved through market exchange. Real grain trade will replace the traditional allocation and distribution of grain. Commodity grain trade will be divided into two types--futures trading and spot trading. In general, it can be said that in those production areas which are centers for commodity grain, there will be a large volume of trade and quantities, varieties, and prices of the grain traded will be relatively stable. Both purchasers and sellers of grain will be seeking a stable production-sales relationship. Here, the adoption of a futures trading form will be beneficial to both the stable development of grain production by agricultural production units and to the state-owned grain companies having a dependable source of grain supply. This will guard against blindness in grain production operation and will strengthen the planned nature of production. In areas where commodity grain is scattered, there will be small-scale trading and the quantities, varieties, and prices of the grain will be unstable. Here it will be best to adopt the spot-trading form, where goods are put on the market when available, as this will be convenient for both the agricultural households with surplus grain and to the representatives organs of the state-owned grain trading companies. Contract purchase is a form of futures trading. The purchase contracts can be for a short period (a season or a year) or can be for a longer period (3-5 years). Developing from short-term contracts to long-term contracts will strengthen the production nature of the contract purchase system. This is an inevitable trend in the development of the commodity economy.

The purchase contract system has only been implemented in a small number of areas and for a small number of products in the rural areas. Also it has only been used for a short time. We still lack overall experience. This is especially so in regard to the present system of economic law, which is newly established and imperfect. In economic dealings, we are still not accustomed to observing the law, abiding by the law and enforcing the law. Thus, it is difficult to judge whether contracts have been carried out or not, and to decide what the legal obligations are if contracts are abided by or broken. For a long period, we have mainly relied on administrative measures in handling matters. Suddenly we have switched to mainly relying on economic measures in doing things. No matter whether we speak of peasant or cadres, agricultural enterprise or administrative organs, all will have to undergo a process of appropriate and new study. We believe that through repeated practice and continual summing up of experience and lessons, we will be able to work out a grain purchase contract system which accords with the full development of the Chinese socialist rural commodity economy.

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NATIONAL POLICY AND ISSUES

BRIEFS

1984 APARTMENT SALES--Beijing, April 27 (XINHUA)--People in many parts of China now can buy subsidized, government-built apartments, according to the PEOPLE'S DAILY today. Last year, apartments with a total floor space of 1,931,000 square meters--70 percent more than in 1983--were sold to private buyers in 111 cities and 200 counties in 24 provinces, municipalities and autonomous regions. The country pumped back more than 150 million yuan from the sales into accelerated housing construction, the paper says. Private buyers pay about one-third of the cost of the apartments, with subsidies coming from their workunits. The government has decided to expand its experiments on subsidized sales of public housing this year, in order to meet the increasing demand of buyers. Such experiments began in 1982 in four Chinese cities--Changzhou, in Jiangsu Province, Zhengzhou in Henan Province, Shashi in Hubei Province and Siping in Jilin Province. The individual housing purchasing breaks away from the old practice that the state and workunits should be solely responsible for urban housing. It also gives city dwellers who have not been assigned housing for a long time to get better accommodation, according to earlier news reports. [Text] [Beijing XINHUA in English 1456 GMT 27 Apr 85]

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PROVINCIAL AFFAIRS

PRIVATE ECONOMY GROWS IN CITY CRITICIZED IN CULTURAL REVOLUTION

HK030529 Beijing CHINA DAILY in English 2 May 85 p 3

[Text] Wenzhou, a city of Zhejiang Province, where private business is flourishing, has again been chosen as an example for medium-sized cities in China.

The last time, during the "cultural revolution," Wenzhou was criticized as "an example of developing capitalism" because of its thriving private businesses. This time the city is being praised for its 5,000 private food stands and hundreds of clothing stalls.

Having weathered thunderous criticism during the 10-year chaos, private business has increased rapidly since 1978. It has not only helped the local economy, but also made shopping convenient for residents and visitors. Food services are available 24 hours a day. Along the main streets of the city, thousands of stands provide people with a variety of traditional foods, such as fish croquettes, noodles and fish soups.

A reporter of WEN HUI BAO, a major newspaper in Shanghai, visited two girls from the suburbs who run a fish croquette business from dusk till 3 am. Every day, they sell several hundred bowls of fish croquette soup. More than 600 similar private stands do business at the same time. As if in collusion, hundreds of other stands start business in the early morning when the others close.

People of Wenzhou also have ready supplies of clothing. One market in Mushao lane includes up to 600 stalls where the quantity and variety of clothing surpasses that available in state-run stores.

Furthermore, people in Wenzhou have also developed some unusual private businesses. An information service called Dongfeng is one of the most promising. In a small room several young people publish information reports every 10 days on economic trends in China and abroad.

While providing information to some 20 cities and provinces in China, the service has also begun an economics correspondence course for more than 1,000 city residents and residents elsewhere in China.

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PROVINCIAL AFFAIRS

XINJIANG GOVERNOR ON WAGE, PRICE REFORM; EDUCATION

HK031351 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 2 May 85

[Text] In the government work report, Ismail Amat, chairman of the region, emphasized: It is necessary to take an important step in reform of the systems of wages and prices. He said: In reforming the wages system, it is essential to stress reforming the current irrational system of wages, to gradually eliminate the practice of everybody eating from the same big pot in the distribution of wages, and to initially establish a new system of wages which can still better embody the principle of distribution according to work. The state principle of reform of the price system this year is to link relaxation with regulation and to advance with vigorous strides. In accordance with the unified arrangements of the State Council and with the realities of the region, [passage indistinct]. However, the prices of the products which are in short supply, must be strictly controlled. Moreover, it is necessary to make proper arrangements for the reduction in the prices of some commodities. We must embody the principle that some prices rise and other prices drop and we must reduce the influence of readjustment to a minimum.

Ismail Amat held: All places and units must seriously do well in propaganda and explanatory work and must dispel people's worries about [word indistinct] and reform. At the same time, we must make good arrangements for the supply of commodities so as to guarantee the interests of the state and the masses.

In the government work report, Ismail Amat, chairman of the region, said: It is imperative to vigorously do well in reforming the systems of science, technology, and education and to carry out management of scientific research organs in a planned and systematic way and [words indistinct]. It is essential to implement the system of institute directors assuming responsibility, the system of contracting for items, and [words indistinct]. We must develop the science and technology market, run scientific and technological achievements exchange fairs, and provide scientific and technological advisory services.

He said: It is necessary to continue to reform the educational structure, to make arrangements for education in fairs, towns, and cities, and to vigorously develop universities, colleges, secondary vocational schools, and [words indistinct] schools. We must implement the system of school heads

assuming responsibility, expand schools' decisionmaking powers in education, and vigorously strengthen our ability to train qualified persons by ourselves. We must establish the good customs of respecting knowledge, cherishing qualified persons, and showing concern for education. We must vigorously train new qualified persons, particularly persons of minority nationalities who are qualified in specific fields. We must attach great importance to the employment of the qualified persons whom we now have. In this respect, some of our places, departments, and enterprises on the one hand do not have sufficient qualified persons and must take the trouble to go to the interior to employ qualified persons and on the other, some others have not made good use of their qualified persons and have wasted them. This phenomenon must not continue. Now, the intellectuals who are fighting on all fronts are our central forces. We must further implement the party's policies toward intellectuals and must give full play to their intelligence and wisdom so that they can make new contributions toward the cause of socialist modernization in Xinjiang. We must also take persuasive measures to warmly welcome intellectuals in the interior to take part in construction in Xinjiang so that they can give advice and display their ability to develop and build border areas.

CSO: 4006/605

PROVINCIAL AFFAIRS

BRIEFS

SHANGHAI CONTRACT DISPUTES SETTLED--Shanghai, 22 Apr (XINHUA)--Shanghai's 24 economic arbitration committees are scoring big successes in settling contract disputes through mediation, according to a municipal official. Between their establishment in late 1983 and the end of last year, 245 of the 318 disputes dealt with were solved through mediation. Three cases were resolved through arbitration, five contracts were judged invalid and the others were dealt with by the courts. The official said: "The number of disputes is very small, since more than 17 million economic contracts were signed in Shanghai last year." Many of the disputes concerned the quality, quantity and price of goods, the arbitrary tearing up of contracts and delays in delivery of products, the official said. The municipality's 24 economic arbitration committees operate at all business levels. [Text] [Beijing XINHUA in English 0720 GMT 22 Apr 85]

CSO: 4020/209

ECONOMIC DEVELOPMENT ZONES

NINGBO EXPANDING PROJECTS WITH OVERSEAS FIRMS

OW280810 Beijing XINHUA in English 0730 GMT 28 Apr 85

[Text] Hangzhou, 28 Apr (XINHUA)--Twelve joint ventures and other schemes of cooperation with overseas firms have been established in Ningbo, Zhejiang Province, since it was authorized to open further to the outside world a year ago.

More than 800 business people from 20 countries and regions have visited Ningbo, one of the 14 coastal open cities, during the year, signing 80 agreements, contracts and letters of intent for investment.

Mayor Geng Dianhua told XINHUA that construction of the economic and technical development zone, as part of the effort to develop Ningbo, had started in late March.

Projects scheduled for completion by the end of this year include the levelling of one square kilometer of land, public utilities, factory buildings with a total floor space of 20,000 sq m and the same amount of housing space. They would be put to use by joint ventures or foreign enterprises early next year, the mayor said.

The city is now working on infrastructure facilities to improve investment conditions. A 37-kilometer railway line linking the Beilun harbor with the railway network is expected to open to traffic before the end of June.

A military airport has been converted for civil services and a new airport is being planned to service direct flights to Hong Kong and Tokyo.

A program-controlled telephone exchange is expected to be completed by the end of this year, when the city will start direct dialing services to major cities on the mainland and to Hong Kong, Tokyo and cities in Europe and the Americas.

In cooperation with a Hong Kong firm, the city is building a big hotel and a restaurant serving local dishes.

The mayor said that the city would spend 5 billion yuan on major construction projects during China's seventh 5-year plan period (1986-1990), far exceeding the total investment over the past 35 years.

Just 135 nautical miles from Shanghai, Ningbo's deep coastal waters make it possible to build more than 30 berths for 100,000-ton class ships. Now one such berth has been completed. Five more are scheduled to be constructed before 1990, including two coal terminals, one for sundry goods, one for timber and one for containers.

With their total cargo handling capacity reaching 30 million tons, the projected terminals will take some of the load off the already congested Shanghai harbor.

A number of factories will be constructed around the Ningbo harbor. They include an iron and steel works with an annual capacity of 3 million tons, a 2.4 million kw power station, a petrochemical works, a motor vehicle plant and a woolen mill. A phosphamidon project will be started soon in cooperation with Morocco.

The mayor said that Ningbo hoped to become one of the major industrial centers and foreign trade ports on the east China coast.

CSO: 4020/209

ECONOMIC DEVELOPMENT ZONES

FUZHOU ECONOMIC ZONE UNDER CONSTRUCTION

OW010755 Beijing XINHUA in English 0646 GMT 1 May 85

[Text] Fuzhou, 1 May (XINHUA)--Swift infrastructure construction in Fuzhou City's Mawei economic and technical development zone has occasioned great interest abroad.

Business people from Hong Kong and 19 foreign countries have come to Fuzhou for trade talks since the zone was set up in June, and 33 contracts, agreements and letters of intent have been signed.

The 4.4-square-kilometer zone at Mawei port, an international trading port, has also received more than 2,700 business people from elsewhere in China.

Small and medium-sized projects in electronics, textiles, food-processing and light industry will be built first. Next will come large enterprises in electronic machinery, precision machines and instruments, chemicals and building materials.

When complete, the zone will become a scientific and new technology development region specializing in light industry and a modern trading port and tourist spot.

One million square kilometers of land for factories and research institutions have already been reclaimed by a 3,600-meter cofferdam.

Still being built are a waterworks to supply 100 million liters a day, roads and other buildings.

A 500-line electronic telephone exchange is working, and a 2,000-line stored-program control telephone system is to be installed.

The infrastructure is scheduled to be complete by the end of this year.

CSO: 4020/209

ECONOMIC DEVELOPMENT ZONES

BRIEFS

QINHUANGDAO ECONOMIC ZONE--Qinhuangdao, 25 Apr (XINHUA)--Work started today on an economic and technological development zone in Qinhuangdao, one of China's 14 open coastal cities, in Hebei Province. The zone will focus on developing Sino-foreign joint ventures, cooperative enterprises and enterprises with sole foreign investment in such fields as electronics, textiles, light industry, food processing and handicrafts, in the forms of processing with supplied materials, parts and samples, and compensation trade. Upon completion, the zone, 13 km from Beidaihe, a popular summer beach resort, will take the lead in the city's foreign economic cooperation, and in particular serve Hebei and other north China provinces. The first construction phase of the zone will cover 0.62 sq km and infrastructure work is scheduled to be completed early next year. A number of agreements and contracts between local authorities and foreign firms have been reached, and some projects are expected to be completed in the zone this year. [Text] [Beijing XINHUA in English 1345 GMT 25 Apr 85]

CSO: 4020/209

ECONOMIC PLANNING

LARGE MOTOR VEHICLE PLANTS BUILDING SUGGESTED

OW300920 Beijing XINHUA in English 0855 GMT 30 Apr 85

[Text] Beijing, April 30 (XINHUA)--A senior official in motor vehicles has suggested that China build two large auto plants in the next 10 years in order to triple motor vehicle output. The two plants, one with a production capacity of 300,000 passenger cars and the other, 300,000 light trucks, could supply the domestic market and have some surplus for export.

Building these two large plants would fundamentally change China's motor vehicle industry, said Chen Zutao, chief engineer of China's Automotive Industry Corporation.

China's largest auto plant at present is the No 1 motor vehicle plant in Changchun, Jilin Province, which produces 70,000 vehicles a year.

"If possible, China should build a large auto plant every 5 years for a certain period of time to come so as to meet the growing domestic demand," Chen Zutao told a national meeting on development of the auto industry. Industrialized countries, such as Japan and the Soviet Union, gave priority to building large plants to develop the motor vehicle industry, he said.

China has built more than 200 motor vehicle manufacturing and refitting plants since 1953, but their current annual capacity is only 300,000. According to Chen, progress in China's auto industry cannot be based on the renovation and retooling of the present plants because of poor industrial foundation and an unreasonable product structure.

Market demand from industry, government departments and rural areas this year will be about 500,000. The figure will rise to 2 million by 1990. China's motor vehicle industry is facing new challenges following rapid increases in volume of highway transport as a result of the rising cost of short-distance railway hauling. New road and development of tourism in China are also factors in the bigger demand for vehicles.

Chinese Premier Zhao Ziyang has pointed out that the development of the motor vehicle industry will be an important part of China's economic growth. China's Automotive Industry Corporation has two major targets, doubling output by 1990 with quality up to advanced world level of 1980's, and again doubling output in the last decade of the century with models designed in China.



## STATISTICS ON VILLAGE, TOWN ENTERPRISES IN 1984

OW041419 Beijing XINHUA Domestic Service in Chinese 1223 GMT 3 May 85

[Text] Beijing, 3 May (XINHUA)--The fastest growth in China's village and town enterprises occurred in 1984. According to statistics provided by the Village and Town Enterprise Bureau under the Ministry of Agriculture, Animal Husbandry and Fishery, China's village and town enterprises developed to 6.06 million in 1984, with a total employment of 52.08 million people, representing 14 percent of the total rural labor force. The total output value of village and town enterprises reached 170.9 billion yuan, up 40 percent over the previous year. Total profits reached 18.7 billion yuan, and 9 billion yuan in tax was delivered to the state, an all-time high.

One salient characteristic in the development of village and town enterprises in 1984 was the increase in the number of enterprises jointly operated by peasants and individuals. The number of enterprises jointly run by peasants and the number of individual industrial enterprises reached 4.2 million in 1984. The overwhelming majority of such enterprises were established in 1984, with most of them belonging to tertiary industry. In many localities, the output value of enterprises jointly run by peasants and by individuals made up over half of the total output value of village and town enterprises.

Another salient characteristic in the development of village and town enterprises is that the number of pure industrial enterprises has increased, and the building industry developed rapidly. Last year, the total output value of township and village industries reached 103.5 billion yuan. Light industry made up 52 percent, among which farm products used as raw materials made up 54 percent. Heavy industry made up 48 percent, among which the mining industry constituted 19 percent, the raw material industry 14 percent, and the manufacturing industry 67 percent. The output of crude coal, cement, and food processing increased by 25, 27 and 23 percent respectively over the previous year. As of now, the number of village and town construction teams has developed to over 6.8 million, with the number of staff and workers and completed building floorspace representing one-third of the nation's construction industry. Village and town construction teams have become an important force in China's construction industry.

A new trend in the development of village and town enterprises last year was the rise in export products. According to incomplete statistics, village and

town enterprises provided export products to foreign trade departments in excess of 2.7 billion yuan last year. Village and town enterprises exported a total of 4 billion yuan worth of export products in 1984, counting in direct exports, exports from joint-operations between village and town enterprises and foreign firms, and exports from the processing industry using customers' materials.

CSO: 4006/605

AGGREGATE ECONOMIC DATA

STATISTICS ON ENTERPRISES SHOW INCREASE IN 1984

OW100245 Beijing XINHUA Domestic Service in Chinese 1154 GMT 8 May 85

[Report by Wang Kui]

[Text] Beijing, 8 May (XINHUA)--Do you know how many enterprises there are in China? This reporter recently learned from the State Administration for Industry and Commerce that, as of the end of 1984, China had a total of 3,676,600 enterprises registered with the local industrial and commercial administrative departments, with a total employment of over 127.95 million people.

A gratifying fact to these statistics is that, from 1981 to 1984, the number of enterprises in China increased by over 2,243,500, or 1.5 times more than the total number of enterprises in the previous three decades. This is an important indicator of China's revitalized economy.

The policy of opening to the outside world and enlivening the domestic economy has brought about marked changes in China's enterprise structure. As of the end of 1984, China had 803,100 publicly owned enterprises with a total employment of 56,816,500 people, and over 2.8 million collectively owned enterprises with a total employment of over 70.28 million people. From the establishment of the first joint-venture enterprise in 1981, the number of enterprises using Chinese and foreign investment and wholly foreign-owned enterprises at the end of 1984 exceeded 2,000, with total employment of over 160,000 people, including 11,000 foreign nationals.

Another special characteristic in the development of China's enterprises in recent years is the rapid development of the tertiary industry. As of the end of 1984, China had 2,492,605 enterprises belonging to the tertiary industry, with a total employment of over 29.623 million people. Viewed from the whole country, however, the tertiary industry still calls for vigorous development.

Statistics provided by the State Administration for Industry and Commerce also shows that, following the continual perfection of the contract responsibility system of linking remuneration to output in the rural areas, more and more peasants engage in processing of agricultural and sideline products, and various commercial activities. Among the registered collective enterprises, the village and town enterprises make up over 1.11 million, with a total employment of over 33 million people.

CSO: 4006/605

## SHEKOU PORT COMPANY'S FOREIGN MANAGEMENT DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 1, 27 Jan 85 pp 36-37

[Article by Fan Yiqun [5400 1355 5028]: "Tentative Exploration of Shekou Port Company's Foreign Mangement"]

[Text] A bright pearl has arisen on the eastern bank of China's Pearl River estuary in recent years which has attracted much attention both at home and abroad; this is the recently opened Shekou industrial zone in the Shenzhen SEZ, and Shekou port is the foreign trade center of this developing port city. The port is separated by water from Hong Kong's New Territories, being approximately 20 li from Hong Kong and 80 li from Guangzhou by water and about 30 km from the city of Shenzhen by land. Shekou port was basically completed by March 1981 and management was turned over to the recruiting commercial bureau's Shekou Industrial Zone Port Co. Shekou port's total area is approximately 200,000 M<sup>2</sup>, 46,000 M<sup>2</sup> of which is loading area and 14,800 M<sup>2</sup> warehouses. The port's annual handling capacity has now reached 800,000 tons, deepwater and shallow water berths each handling approximately 400,000 tons. In addition, the projecting dock which was finished by the end of 1984 will also provide three 5,000-ton berths and a 10,000-ton berth.

As a result of the open door policy, the major foreign economic contact duties of an SEZ are to effectively use foreign capital to import advanced science, technology and management methods and to serve the general strategic goal of realizing China's four modernizations. Regarding Shekou port as a window and creating a good investment environment will play a promotional role in developing the whole industrial zone and the city of Shenzhen.

As to Shekou port's position and conditions, whether the port company's foreign management is suitable is a decisive question. The port company is a profit-making-type enterprise; it not only collects and distributes goods but also provides labor for customers, belongs to the third estate, is different from ordinary enterprises which handle the production of goods and trade, and the problems confronting it are thus somewhat more complex; exploring problems of its foreign management involves a fairly wide range of areas, and only certain tentative studies can be made here.

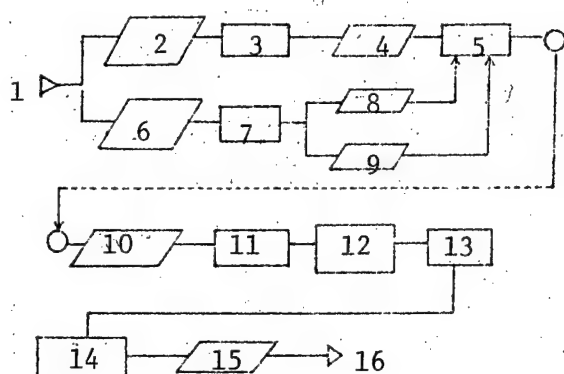
The port company is similar to other enterprises in the Shekou industrial zone in that it raises its own funds, has independent accounting, and profits are its

business goal. State planned profits for 1983 were 1 million yuan but actually reached 1.3 million yuan. State planned profits for 1984 were 2.3 million yuan, 2 million yuan of which was fulfilled during the first half of the year, and they are expected to top 3 million yuan by the end of the year. Judged by the conditions for August 1984, the port's handling capacity had actually reached 56,100 tons and profits were 110,000 yuan or 12 percent more than originally planned.

Since Shekou port's geographical position is superior, its conditions are somewhat different from those of ordinary port enterprises. Ordinary port enterprises stress business such as loading and unloading, storing and barge and passenger transportation, but being situated at the industrial zone's strategic point and the Five Bay oil base, the Shekou Port Co stresses the business of acting as a logistical service net for South China Sea oil; this has been very appropriate and both developed new business fields and has been consistent with the development goals of the whole industrial zone.

Using the criterion that "the customer is boss," the Five Bay oil base and the Shekou port which are managed by the port company provide 24-hour-a-day service. Their major business includes providing dock and anchorage berths, representing customers in handling all formalities, providing customers with the labor they need when working in port, renting all machinery, equipment, space and warehouses, taking care of goods being loaded and unloaded on the docks and developing the foreign shipping agent, tally and transportation businesses. It is thus clear that with so many and such diverse businesses, if management and administration were not appropriate, the disorder which could appear in Shekou port would be unimaginable. But the port company has adopted advanced scientific methods, and through continuous improvements, has basically perfected a set of operating procedures and greatly simplified the many and diverse domestic formalities necessary in the past. Since it has been managed and administered appropriately and legally, the port company has achieved quite outstanding successes in the area of developing business.

# The Port Company's Business Flow Chart



## KEY:

1. Customer
2. Business administrative procedure contract
3. Management department
4. Contract
5. Dispatcher
6. Customer work application
7. Foreign business department
8. Work list
9. Customs list
10. Work plan document, day, night
11. Manager
12. Unit certificate collection, examination and verification
13. Calculation of costs
14. Financial examination, verification and charges
15. Bill
16. Customer

As stated previously, the business goal of the Shekou Port Co is to make profits, and how to formulate a set of charge standards is thus the key to whether it can make them. China's port fee collection is now generally formed of many items, such as navigation and berth moving fees, mooring and castoff fees, shipping port fees, goods port fees, loading and unloading fees and storage fees. Shekou belongs to the special zone and the port company has the right to set its own fee rates. Considering Shekou port's special geographical position, it does not use domestic fee rates as the standard when setting its fee rates; the "Shekou port fee rates" issued in February 1983 were set roughly 10 percent lower than those of Singapore. These fee rates are higher than the "port fee collection regulations" issued by the Ministry of Communications in 1978. Through a trial period, all parties have reported differences about these fee rates. Some people think the fee rates are too high, others think that a set of floating fee rate tables should be formulated, and still others recommend simplifying them. The most prominent part of the problem is that fee collection

is too high and too detailed, and this point will have a definite short-term effect on increasing port income; but the port company should also consider two problems from the long-term view: The first is the problem of the business nature of Shekou port. Shekou port is the industrial zone's gateway to the sea and a foreign trade material import-export distribution center. In order for the industrial zone to attract foreign capital and import advanced foreign technology, it must fully use the port and keep an open passage. If this is not accomplished, it will not only be unfavorable to the port itself, but may also affect the development of the whole industrial zone. When considering the business nature of the port, we should thus consider the basic starting point of the port's fee collection. Proceeding from the overall viewpoint of the whole industrial zone and its long-range interests, fee rate standards could be lowered, permitting the company to have a certain degree of losses for a certain period of time which the state would specifically subsidize. The second is the principle of charges being "lower than Hong Kong's and higher than domestic ones." This principle is used in consideration of Shekou port's special position, to achieve an appropriate intermediate figure and to benefit the development of business. It has been stated above that Shekou port's fee collection rates are indeed higher than domestic ones, but how to compare them with Hong Kong's is still a problem since Hong Kong's fee collection items and calculation methods are all different from domestic ones and her port enterprises are all private ones with different floating fee rates. The port company should strive to collect related data in order to benefit work progress.

The Shekou Port Co is now using the charge principle of "relying on the motherland, having a foothold in Hong Kong and Macao, facing abroad and developing a diversified economy." This can both attract foreign business and capital to Shekou port and benefit the industrial zone's turnover of foreign goods and materials.

The Shekou Industrial Zone Port Co is a recently developed enterprise with great potential, and provided it is managed and administered properly, it will in future definitely play a great promotional role in developing the whole industrial zone and even the Shenzhen SEZ. But it is now still faced with many problems, the following of which are in urgent need of being considered:

1. As a special zone port, do the Shekou port waters also have certain special characteristics? For instance, in collecting fees in areas such as shipping port fees, anchorage fees and goods port fees, how should prices be set in comparison to domestic and Hong Kong ones? Must "low-priced fee rates: be set to attract ships and goods to Shekou port? If these fee rates are favorable to macrocosmic development of the SEZ but cause microcosmic port losses to occur, can the latter be subsidized?

2. Should the SEZ have preferential foreign shipping agent and tally fees? Can the port company separately set different foreign shipping agent and tally fee rates with other units? Should Shekou port have different charges for domestic and foreign shipping? Can two different fee rates be used for cargo owners from inside and outside of the SEZ?

3. Should Shekou port in future stress the loading and unloading of goods and materials or the rental and loan of storage space and equipment (the storage business)? How can a diversified economy be developed?

Faced with competition from the Chiwan base adjacent to Shekou port and from Hong Kong, the Shekou Port Co should pay attention to "development," and so-called "development" should change from "waiting for rice to be put into the pot" to "searching for rice to put into the pot." Existing sources of goods in the present field of management must be expanded and new sources developed, on one hand; new business fields, such as service to South China Sea oil which has achieved definite successes, must be developed, on the other. The key to development is information, particularly market information, and port company leaders must pay close attention to Hong Kong, Shenzhen SEZ, industrial zone and national market information.

The work of providing information to the managers of the port company is now the responsibility of the management department, but it has not yet specially assigned people to carry out this work and this is a problem worthy of attention. It is recommended that the port company specially establish an information office to collect data from all areas, because in the present increasingly maturing information society, information is a talisman of success.

In addition, as to the port company's present poor coordination with the transportation department in the loading and unloading process which has affected the improvement of work efficiency, it is recommended that it set up its own motorpool. It could be divided into the two groups of passenger and goods transport and carry out a joint transportation system. The Shekou port passenger transport station could also be managed by the port company, and prior to arriving at Shekou port, passengers would be able to buy joint transport automobile tickets aboard ship in advance and leave the dock in special cars after disembarking. Goods arriving by ship at Shekou port could also be directly transported to their destinations by the port company's trucks. This would both make things convenient for customers and benefit the port company which has the financial strength to set up a motorpool.

In order for the port company to have greater successes in the area of foreign management, it must specifically achieve the following points:

First, it must stress the study and drawing up of management strategy. A popular phrase in foreign business circles is that "Urgent matters are not necessarily important ones." Business leaders should constantly consider how to take the next step and whether originally determined tactics are suited to new circumstances. The port company's conception of business development strategy should be closely coordinated with an analysis of the port's functions.

To put it briefly, the management strategy orientation of Shekou Port Co should be to stress its "specialness," fully utilize the SEZ's favorable conditions, do a good job of giving service to South China Sea oil and develop the commercial storage and transportation businesses.

Second, the port company must pay attention to its reputation and image in foreign circles and handle well its relationship with the government and cargo



owners. Company leaders should be sharp at detecting all feedback information and pay attention to service reports on the company provided by foreign circles in order to take appropriate steps, improve service quality and establish the company's reputation.

Third, it must establish information channels and strengthen its collection and analysis of economic information. The present weak condition of the port company's information system must definitely be changed and it should use the favorable conditions of the general company being in Hong Kong and the port company being located in the SEZ, establish perfect information channels and strengthen the collection and analysis of information in order to promote business development.

Fourth, it must improve the professional standards of its workers. Science and technology are developing rapidly, and continuous improvement and study are needed in order to not be abandoned by the times. All staff members should constantly improve in their professional fields in order to be able to promote the work progress of the whole company.

In summary, Shekou port, which is separated by water from Hong Kong, should use its favorable conditions and do a good job of foreign management in order to contribute to the prosperity of China.

12267

CSO: 4006/459

REGIONAL DEVELOPMENT STRATEGY DISCUSSED

Hohhot NEI MENGGU RIBAO in Chinese 30 Jan 85 p 4

[Summary of a speech given by Yu Guangyuan [0060 0342 6678] at the Inner Mongolian Economic Development Strategy Symposium on 23 January 1985: "Based on the Spirit of the Third Plenum of the 12th CPC Central Committee, Study the Problem of Regional Strategy"]

[Text] We have now been holding these economic and social development symposiums every 2 months for 4 years. This is the beginning of the 24th symposium and the second regional development strategy symposium hosted by the Inner Mongolian People's Government.

This regional development strategy symposium was convened since the Third Plenum of the 12th CPC Central Committee, and when discussing problems, it must guide people to better consider how to use the Third Plenum's spirit of reform to study the problem of regional development strategy.

I have had the feeling for the past 3 months that when discussing work, we have not been in very close contact with the spirit of the Third Plenum.. This is natural since we are still digesting its spirit. How to better grasp and implement its spirit in actual work is a very complex problem that will certainly not be easy to resolve. But we must definitely strive to think and act according to it. I am also unable to explain how to get in contact with it and can only give some examples. For instance, the Third Plenum stressed a commodity economy. The problem of commodity production existing in socialist society has been solved in a book written by Stalin called "Problems of the Soviet Union's Socialist Economy." Succeeding practice and discussions have enabled us to further understand that the scope of commodity production has been broadening under the socialist system; this has enabled us to further understand that not only can a partial commodity economy exist under the socialist system, but that it must occupy a dominant position in our society, and it can even be said that our socialist economy is a planned commodity economy founded on public ownership of the means of production. I have considered recently that we not only admit that bought and sold material products are commodities, but that we should also admit that some nonproducts, such as labor used in business, are commodities. I differ from many conservative and moderate factions on the problem of productive labor in thinking that it has both use value and value. The simplest definition of commodities in the general knowledge of political economy, i.e., that they are the product of business relations, must thus be

the interpretation of the liberal faction. Further, under our socialist system, things which were not originally commodities can also be "Commoditized." Admitting that things which originally had value and use value are commodities and regarding things which did not originally have value and use value as commodities are two entirely different things. I call the latter "commoditization", i.e., I regard recognizing that they are commodities, and "commoditization", are two different concepts. Valueless things can still have prices, and this situation exists under the capitalist system in land prices for instance; similar commoditization can also not be totally denied under the socialist system.

How can valueless things have prices? The most common situation is that acquiring these things can enable people to achieve better economic results. Their prices are thus not explained by their value for they have no value. For instance, trademarks can be commoditized; a trademark being sold to you and your being able to achieve results is trademark commoditization. Achievements created by technology must consume labor, but their prices are not based on the labor consumed. What are they based on? They are based on how much economic results people can receive after acquiring this technology. The price laws for commoditized things are different from those for commodities. If it is said that commodity prices are based on value, the prices of the things commoditized in the above example would then be based on how much economic results could be achieved after acquiring them, but their prices are not based on value. Prices here are a changed form of the economic results able to be achieved. In order to finally explain the matter, there is of course still a problem in taking value as the basis, but as Marx has proven in his land rent theories, this is not returned directly but through a complex "conversion." Moreover, commodities cannot be separated from and are sold on the market. Technology also cannot be separated from its market and also requires a technology market. The production of products by directed planning must also accept market regulation, and both private enterprises and state planning organs must accept market regulation. Since we understand that the resolutions of the Third Plenum have stressed that the socialist economy is a commodity economy, we must thus have the concepts of a commodity economy and markets when studying regional strategy. I think that this will have an effect on the economic development strategy patterns considered by all regions prior to the Third Plenum, and that all regions should also consider appropriately changing their formerly thought out strategy patterns.

Let us take another example on the problem of cooperation. The Third Plenum stressed cooperation and thought that it had to be more important than competition; cooperation is very highly related to China's regional economic development. To the people in the coastal region, I say that your eyes must face east and also west; western China has very good investment sites and is the place where all kinds of qualified personnel from the east can carry out great plans. When I say here that you must face east, I am referring to the need to import foreign technology and funds. Saying that you must face west is in order to understand and develop the resources of western China. Facing east and west are both important and the importance of these two directions is nearly equal and should be combined. I feel that our domestic cooperation with undeveloped regions such as Inner Mongolia is even more important.

But I think that in order to do good cooperation work, we cannot only stress style and ideological education. Style must be discussed and education work carried out, but there is a problem here of coordination of interests which must be handled well. There must be overall consideration of the interests of both or many cooperating sides. The old strategic pattern for Inner Mongolia was that we have a certain amount of resources, need a certain amount of money to develop them and hope that the state would invest it. After single-project development, such as mineral product development, acquired money, if matching industrial, transportation and communications conditions were lacking, results could not be achieved. State investment was thus needed to acquire these conditions. There was this condition and that condition and the added need for investment was very great; if the state was unable to do it, the result was that one area's problems held down other areas and there were long postponements. I hope that the comrades will consider whether there are other supplementary ways to solve these matters somewhat better. My idea in speaking of supplementary ways is that if the state can invest a little more in undeveloped regions, it will of course have a great effect on the development of these regions. Resources are abundant in China's undeveloped regions, and development of these regions will not only result in great economic results for the regions but also for the whole country. But we should strive to think out more ways. Considered from the point of view of commodities and markets, I think we should be able to think out more ways.

For instance, the coal in Inner Mongolia's Huolinhe Coal Mine is suitable for generating electricity. When considering construction in Huolinhe, certain research work in line with this kind of thinking can be done: 1. What places in the Huolinhe vicinity can economically use the electricity produced by the Huolinhe pit electric generating plant? For instance, it will be necessary to study which cities and industrial mining areas in Beijing, Tianjin and the Northeast can economically use Huolinhe's electricity. So-called economic use is the need to consider the cost per kWh in these places for using Huolinhe's electricity. We should also calculate the cost of generating electricity in the Huolinhe pit and carrying it to all cities and mining areas and that of shipping coal to these cities to generate electricity in their vicinity, and compare the two; 2. After the above problem is clearly considered, we can consider whether the funds needed to build a pit electricity generating plant at Huolinhe and then to supply these cities can possibly come from the investment which the various cities originally planned to build plants with in their own vicinities, i.e., we can invite these cities to invest the money in Huolinhe which they had originally prepared to invest in their own regions; 3. These matters will affect the interests of all sides, and we must thus carefully consider the effect on the interests of all sides and find a plan which will enable everyone's interests to benefit. Not making specific studies of these kinds of things will not do. Although the foregoing were casual remarks, they were made in order to illustrate an idea. Only by conscientiously making careful studies and calculations based on actual conditions can a scientifically based view be proposed.

Let us take another example. The Third Plenum stressed opening, but it is feared that we still have many closed concepts. For instance, developing the economy of one's region is generally thought to be developing the territory in one's region, and the concept of investing money in other regions is still very

weak. I do not understand why coastal regions cannot invest a little more money in other regions. This is of course entirely possible, but our thinking must be straightened out in order to be able to accomplish it.

Eastern China lacks electricity, energy and raw materials, and if raw materials are shipped there from western China to be processed any many products then shipped back to be sold, this would be a great waste and create transportation shortages. Would not taking funds, technology and qualified personnel to western China and bringing back money be able to greatly reduce transportation and achieve better economic results? It appears that the problem is that the interests of all regions must be coordinated. In addition to a statistical problem, I am afraid that there are also legislative problems which must be solved here. Does eastern China investing in western China also involve a lack of trust mentality?

What must be overcome is the concept of only considering the scope and development of one's own region. I feel that this will not only be very important for eastern China, but also for western China. Although the western region has few people and much land, judged from the point of view of industrial distribution, more deployment must be stressed and our field of vision must also surpass the regional limits of our own region. For instance, a lack of qualified personnel is a major problem for undeveloped regions and we must try to attract more qualified personnel to go and work there. Inner Mongolia can also consider the problem from a national perspective and try to use qualified personnel from throughout the country. You must not think that only people who live in Inner Mongolia are qualified to develop Inner Mongolia. Faced with Inner Mongolia's needs, you can raise a topic, find people throughout the country who can suitably solve problems to give it to and use the method of compensation to acquire the fruits of their labor. Qualified personnel from throughout China can thus be used in Inner Mongolia. I believe that intellectual circles throughout China wish to strive to develop western China's vast territory.

In summary, what I want to mainly stress today is that our style of raising and considering problems since the Third Plenum of the 12th CPC Central Committee should be different and have certain changes from our style prior to it. We must admit that we all lack the new knowledge and experience needed for modern construction and must thus all understand ourselves anew, study again and take a broader road on the problem of regional development strategy.

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JOURNAL ON ROLE OF CITIES, HORIZONTAL ECONOMIC LINKS

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[Article by Lin Ling [2651 0407]: "Give Play to the Central Role of Cities, Develop Horizontal Economic Links"--edited by Ding Jiatiao [0002 1367 4383]]

[Text] In the practice of reforming our economic system since the 3d Plenary Session of the 11th CPC Central Committee, giving play to the central role of cities is a new topic which is raised following the expansion of the decisionmaking power of enterprises. In 1982, the CPC Central Committee first decided to carry out experiments in this connection in Changzhou and Shashi; in 1983, the CPC Central Committee decided to designate Chongqing as the place for pilot schemes in carrying out comprehensive reforms of the urban economic system; in 1984, Wuhan which is a communications hub with routes leading to nine provinces, Shenyang which is a key city in the northeast, and the port city Dalian successively joined the ranks of pilot reforms after the pattern of Chongqing; and at the same time, most provinces and autonomous regions in the country also selected one or several cities to implement pilot schemes. Thus, of the more than 200 cities in the country, 52 large and medium-sized cities have developed this type of pilot scheme to date. Giving play to the central role of cities has become an important content in our reform of the economic system as a whole. Therefore, the "Decision" adopted by the 3d Plenary Session of the 12th CPC Central Committee further pointed out emphatically: "It is necessary to give full play to the central role of cities, and gradually form open economic zones with different scales and diversified connections based on cities, especially the large and medium-sized cities."

The Goal of Giving Play to the Central Role of Cities

The goal of giving play to the central role of cities may be summarized in one point, that is, to gradually form open economic zones with different scales and diversified connections based on cities, especially the large and medium-sized cities. In order to achieve this goal, it is necessary to carry out thorough reform of the existing economic system.

Reforms involve a great number of aspects because of the various economic relations maintained by the cities both internally and externally. However, there are just two main points in giving play to the central role of cities and developing horizontal economic links: to do away with isolation and to smash blockades.

The radical way to end isolation is to dissociate the direct link of economic interests of the government organs in charge of economic affairs from the interests of the enterprises. At the same time, it is also necessary to carry out a series of reforms.

Administration of enterprises must be decentralized. Apart from a very small number of large key enterprises which have a direct bearing on the national economy and enterprises in the fields of railways, posts and telecommunications, the electric power industry, petroleum, and national defense, which should be directly administered by the relevant central departments, the remaining enterprises under the provincial authorities and enterprises under the ministries of the central government should in principle be administered by the large and medium-sized cities in a decentralized manner. The production and circulation are to be unifiedly organized by the cities.

The system of cities leading counties must be implemented. In accordance with the history and existing conditions of the economic associations between cities, the rational direction of economic flow, and the loading capacities of the cities themselves, a number of counties should be placed under the administration of the large and medium-sized cities. The cities can organize the production and circulation of the urban and rural areas in a unified way, so as to form economic networks integrating cities with the countryside and to gradually form a new socialist relationship between the cities and the rural areas.

The power of economic management of cities must be expanded. In order to organize production and circulation in a unified way, the cities should be given different kinds of power of economic management in accordance with the different conditions of these cities. As for a small number of very large cities, they should be separately treated and be given power of economic management equivalent to that of the provincial level authorities; with regard to other cities as capitals of provinces and some important cities directly under the provincial authorities, provincial-level power of economic management may be partly or wholly granted; as for the general run of cities directly under the provincial authorities, they may be granted power of economic management greater than their own areas; and with regard to individual cities directly under the provincial authorities, they may be granted special power of economic management equivalent to that of the provincial authorities in dealing with specific items, such as the provincial-level power of foreign trade granted to some port cities.



The system of management in which the cities organize production and circulation in a unified way must be implemented. The state plan should be relayed through the city alone, and the enterprises should be administered by only one "grantmother." Urban trade centers and comprehensive circulation networks should be established so as to unifiedly organize the circulation of industrial consumption goods, agricultural and sideline products, and the means of production. Production and circulation in the countryside should be unifiedly arranged in conjunction with the cities, so that an intrinsic economic association can be established between cities and rural areas.

Specialized coordination should be carried out on the basis of economic rationalization so that the practice of all-round operations can be changed. The enterprises should be allowed to carry out voluntary reorganization and association, and should be encouraged to center their attention on famous brand products, products with prospects of development, and the key industries. Through reorganization and association, industries with their own strong points and superior products with distinctive features should be developed to activate the progress of the urban economy as a whole, so as to strengthen the economic capabilities of the cities and enhance the social economic results.

While formulating plans to carry out the strategy of economic and social development of the cities as a whole, technological transformation, technological introduction, and the development of new technologies, cities of various types should give play to their own strong points in line with their own characteristics, so as to gradually form their own industrial structure and product structure, resulting in a remarkable enhancement of the level of productive forces in the cities.

Because of the influence of the traditional concept of "product economy," we practiced a closed-type economic system. The cities should have had the function of conducting various kinds of economic activities far beyond the extent of their administrative areas, but this function was obstructed by the past closed-type system. Therefore, in order to give play to the central role of cities, it is necessary not only to break through the state of isolation, but also to smash the state of blockade, so that cities can at last become open-type economic centers.

The reform involving the smashing of blockades is much more complicated than the reform involving the breaking up of separation. In breaking up separation, we can adopt various measures, such as dissociating the direct economic interests of the government organs in charge of economic affairs from the interests of the enterprises, delegating the power of administering enterprises, and expanding the power of cities in managing economy, and these can be carried out rather quickly by means of administrative measures; but in smashing blockades and realizing the open policy, it is essential to adopt many economic measures, implement a number of flexible policies, establish a series of new organizations, and carry out a series of reforms on a still wider scale.



Economic strength is the material force that can smash blockades. The infiltration force of the economy is very great. Economic strength can smash any fortress. Therefore, in order to smash blockades, it is of primary importance that the cities should actively develop their socialist commodity economy to increase their own economic strength. In their famous "Communist Party Manifesto," Marx and Engels said: "The cheap prices of commodities are the heavy artillery which can destroy all the great walls and conquer the most stubborn psychology of exclusivism of the barbarians." Therefore, in implementing the open policy, the cities must rely on good products with cheap prices and commodities suited to the market needs as well as outstanding technological and economic services to expand their economic influence. At the same time, it is necessary to implement various kinds of preferential policies and create favorable conditions so as to attract the inflow of capital, technology, and talents to engage in setting up factories and shops as well as conducting various kinds of economic activities. In this way, the economic strength of each individual city will be expanded.

An important economic means of smashing blockades is to establish circulation networks with extensive connections with the cities as centers. Therefore, it is necessary to break up the irrational system of setting up circulation organs according to administrative regions and conducting circulation by administrative channels. It is important to establish trade centers for industrial products, agricultural and sideline products, and the means of production, forming extensive sales networks in accordance with economic rationalization. These networks will supply materials and consumer goods to the productive enterprises in cities and in rural areas, and at the same time, they will attract the trade in materials from various places to the cities with their satisfactory facilities and good services.

In order to smash the blockades, it is also necessary to grant considerable power of foreign trade to the large and medium-sized cities on the premise of following the unified planning of the state, unified policy, and the principle of conducting joint efforts in dealing with foreign trade. They should be allowed to handle imports and exports and the introduction of technology, capital, and equipment within the scope of cities, and they should also be allowed to handle similar business between their own province and other provinces and regions. Large and medium-sized cities with suitable conditions should also be accorded power equivalent to that possessed by coastal open cities, so that they can bring in foreign capital and run various kinds of joint ventures and businesses solely utilizing overseas capital. Corresponding measures should be taken in regard to customs, commodity inspection, banking, and communications and transport, so that these cities can become economic centers which integrate enlivening the domestic economy with opening to the outside world.

Developed production and trade are closely associated with developed finance and information. In order to smash blockades, it is necessary to break through the system of establishing banks and conducting financial activities according to administrative regions, expand the power of the urban banks, and form financial centers in cities so as to carry out direct credit

exchanges with other localities; and it is also necessary to strengthen economic information centers so as to provide information services to various localities and various fields. Hence, it is essential to make the cities, the large and medium-sized cities in particular, truly become open economic centers with multiple functions in the fields of communications, trade, production, finance, information, and science and technology.

Under the original system, the tasks of production and finance were undertaken by the cities as economic entities. The city had to fulfill the tasks in terms of output value, quantity plans, and delivery of profits to the state, which were all assigned by the upper authorities; if quotas were overfulfilled, the city could share part of the products and profits; this practice was one of the causes for the emergence of closed-type cities. If this problem were not solved, the cities, even after they have broken the barrier of separation, would still become new closed-type blocks. Therefore, on the basis of adopting the above-mentioned series of reform measures, it is necessary to carry out further reforms on the planning system and the financial system, so as to emancipate the city from the restriction of being an economic entity.

With regard to the planning system, the state can assign the production plan to the cities, but the state should not control the conditions of the fulfillment of the plan by the city, and only statistics work should be done in this regard. In accordance with specific conditions, the government of the city should assign the tasks of fulfilling the state plan to various enterprises. Mandatory plans should be handled by purchase orders; and guiding plans should be handled by means of regulation through economic means. At the same time, adequate work of coordination should be done at all levels starting from the lower levels and moving upward.

In order to smash the state of blockade, it is necessary to implement a financial system in which the state, the province, and the city get separate tax revenues on the basis of an overall reform of the taxation system. Because the enterprises deliver their taxes according to their revenue from sales and realization of profits, it would be meaningless if the state should assign plans on profits to the enterprises. Similarly, the financial revenue of the city is determined by the amount of profits delivered by the enterprises and the various kinds of trade activities, and it would also be meaningless if the province or the city should assign financial tasks. The implementation of the financial system of separation of taxation and share of taxation will promote the openness of the cities. The more open a city becomes, the more prosperous its production and trade, the greater the amount of its tax revenue, and the richer its financial status; on the contrary, the more closed a city becomes, the more stagnant its production and trade, and the more difficult its financial conditions.

The ultimate result of the above series of reforms is: First, the city possesses greater influence because of its economic strength (including its outstanding products, its technology, and its capital and funds); second, the city has a greater degree of attraction because of its flexible policies and preferential conditions; third, the city has a strong capability

for comprehensive services as a result of the work performed by its various kinds of central functions. In this way, the city will at last be able to free itself from the trammels of regional barriers and blockades and truly become an open national or regional economic center, thus gradually forming open, network-like economic zones of different scales with cities, especially the large and medium-sized cities, as the basis.

#### It Is Necessary To Reform the Economic Management in Cities

It is natural that the city should be granted a greater power of economic management in order that the central role of the city can be brought into full play. However, if the expanded power is utilized within a closed circle without a correct guiding ideology and still on the basis of the past concept of effecting "product economy" by means of administrative means, new barriers between departments and regions will be certain to emerge and the role of the city as an economic center will not be truly brought into play. Therefore, the "Decision" pointed out: "In this reform it is necessary to call the attention of all leading urban comrades to the need for the city governments to separate their functions from those of enterprises and achieve simpler and decentralized administration, and not to repeat the past practice of mainly depending on administrative means to control enterprises so as to avoid creating new barriers between departments or regions." That is to say, a series of reforms on urban economic management should also be carried out.

The fundamental starting point and standpoint of the reform is to strengthen the vitality of the enterprises. What is called giving play to the central role of the cities cannot be accomplished by the urban governments, and should be accomplished mainly through giving play to the role of the enterprises.

The urban enterprises are the main undertakers in terms of industrial production, construction, and circulation of commodities, and are the leading forces in developing the social productive forces and in advancing the progress of economy and technology. At present, there are over one million urban enterprises in our country, including enterprises in industry, building construction, communications and transport, commerce, and service trades, with a total working force of more than 80 million people, and the taxes and profits provided by the urban industries and enterprises alone constitute over 80 percent of the state financial revenue. These conditions show that whether the enthusiasm, initiative, and creativity of the urban enterprises in production and marketing can be brought into full play, and whether the enthusiasm, initiative, and creativity of the over 80 million staff and workers can be brought into full play, are the key issues to whether the central role of cities can be brought into play.

Since the 3d Plenary Session of the 11th CPC Central Committee, our urban reform has begun with expanding the decisionmaking power of the enterprises. This is a path which we pursue on the basis of summing up the historical experiences and lessons in regard to the practice and reform of our economic system in the past 30 years or so. The past reforms were all centered on

the question of whether to delegate power to the lower levels in administering the enterprises or to centralize the power, or whether to control the economy mainly in a vertical way or mainly in a horizontal way, and no path like the present one was found. After the 3d Plenary Session of the 11th CPC Central Committee, we found the key to invigorating the enterprises in a firm and determined manner, and consequently a brand new situation in terms of the reform has emerged. Now our relatively agreed view is: In our national economic system as a whole, the enterprises should enjoy the status of relative independence, and they should not be the appendages of administrative organs; our country now practices a planned commodity economy, and the enterprises are the commodity producers; and the enterprises as relatively independent commodity producers should have their own relatively independent economic interests. The above cognition is an important breakthrough in the reform of our economic system, and is an important reason for the success of our reform in the past 6 years.

So that the cities can give play to their central role through the enterprises, it is necessary for the enterprises to have internal motivation as well as external pressure, so as to form an automatic regulation mechanism integrating internal motivation with external pressure. The internal motivation means the granting of due economic interests to the enterprises while giving them sufficient decisionmaking power. The external pressure means upholding competition while assigning definite economic responsibilities to the enterprises. For a long time, people have regarded competition as something pertaining to capitalism. As a matter of fact, so long as there is commodity production, there will certainly be competition. However, the goal, nature, extent, and means of competition would be different in different social systems. The competition among socialist enterprises is essentially different from the competition under capitalist conditions which is characteristic of the strong swallowing up the weak. It is carried out on the basis of public ownership, under the control of the state plans and the law, and on the premise of serving the socialist modernization drive, with the aim of letting the enterprises be assessed and examined directly by the broad masses of consumers, resulting in victory for the good and failure for the bad. Such a practice will be beneficial to breaking up separation and blockade and exposing the weak points of the enterprises in time, so that the enterprises can be prompted to improve their production, technology, and management, thus promoting the development of the entire national economy and the socialist cause.

In order to meet the requirement of enlivening the enterprises, the urban governments should shift from the past concept of administering a product economy to the concept of administering a commodity economy, and the urban government departments should not directly engage in running or controlling enterprises. It is necessary to let the enterprises decide for themselves various aspects of their operations, such as the mode of production and marketing, activities in terms of supply, production, and sales, utilization of the retained funds, appointments, release from duty, and election of working personnel within the organization, measures in terms of employment, wages, and bonuses, determining the prices of products manufactured

by the enterprises themselves within the limit set by the state, and so on and so forth. Hence, it is possible to greatly reduce and regulate the urban industrial departments which were directly engaged in running and controlling enterprises in the past. Administration over different trades of enterprises can be replaced by trade associations established by the masses from the lower levels upward. As for some integrated economic management departments in the cities, which have been the weak links in the urban economy, such as the planning system, system of economic regulation, system of economic information, system of economic supervision, and system of foreign economic relations, they must be greatly strengthened. However, they should not directly intervene in the production decisions and the operation and management of the enterprises.

In regulating and simplifying various government departments which were directly engaged in running and administering enterprises, an important aspect worth attention is that it is not allowed to change some of the previous industrial administration bureaus to new corporations under various disguises. It cannot be doubted that management of the economy with support from cities is most beneficial to the free and independent reorganization and association of enterprises on the principle of specialized coordination. In the reorganization and association of enterprises, it is absolutely necessary to establish some corporations with the nature of enterprise based on some outstanding products, or to set up some economic associations mainly based on some key industries. However, because of the ambiguous understanding of some comrades on the nature of the corporation, there is some confusion in this regard. At present, there are three types of corporations set up in the cities: The first type is the corporations set up in conformity with the needs of the development of production and on the basis of voluntary association and mutual benefit with the support of some manufactured products, and these corporations have a high degree of vitality, such as the motorcycle industrial corporation in Chongqing, the Chongqing clock and watch industrial corporation, and so on; the second type is corporations set up for the convenience of administrative control through official channels, and there is a lack of inherent connections in terms of production among the majority of factories within the corporation; and the third type involves the nominal change of the original economic administrative departments, such as an agricultural machinery corporation which was originally the agricultural machinery bureau, and in fact they are still executing the functions of economic administrative organs. These three types of corporations, with the exception of the first type, are all so-called administrative corporations whether they are under the administration of the bureaus or originated from the bureaus. Their organization is based on business organization, with most of their funds coming from "the shared contribution" of their subsidiary enterprises. If these corporations are given the power which is supposed to be delegated to the enterprises, the functions of government and enterprises cannot be separated, and will be strengthened instead. Furthermore, in accordance with the principle of "economy with different scales," the scales of our enterprises should be the combination of large, medium-sized, and small enterprises, and should be mainly based on medium-sized and small enterprises in line with the conditions of our country. The small enterprises

can change their directions quickly, are flexible, are able to cope with the changes of the situation, and therefore they can satisfy various kinds of requirements. If all the small enterprises are incorporated into the corporations, the corporations will shoulder a heavier burden, and what is more important, the mobility of the small enterprises will be easily lost which will be harmful to the development of the national economy as a whole. Corporations should be enterprises, and enterprises are economic organizations. Therefore, in the reform of the urban economic management, it is necessary to carry out serious transformation on the administrative corporations under different names. Some of them with suitable conditions can be gradually changed to corporations with the nature of an enterprise, and those without suitable conditions can be reorganized into trade associations and other organizations.

In giving play to the central role of cities, the main tasks of the urban governments in the future are: Concentrate on doing a good job in planning, construction, and management of cities, strengthen the building of various kinds of public facilities, carry out comprehensive control and management of the environment, guide and promote the specialized coordination of enterprises, reorganize associations and promote technological transformation and the modernization of operation and management, guide and promote the rational circulation of materials and commodities, do a good job in culture and education, public health, social welfare, and other services, promote the building of spiritual civilization and create a fine social atmosphere, do well in maintaining social order, and work out good plans for the mid- and long-term development of the economy and society in accordance with the general requirements of the development of the national economy and local conditions. In implementing the policy of delegating the power of administering enterprises to the cities, the administrative functions of the urban departments in charge are mainly the determination of the direction of development and important reform plans for the enterprises, issuing mandatory plans and guiding plans in regard to specific trades, providing economic information, appointment and removal of principal responsible persons, and so on. The enterprises should be allowed to give full play to their own initiative and creativity, and to grow and flourish amidst competition.

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ECONOMIC MANAGEMENT

ECONOMIC RESEARCH CENTER MEMBER ON GUIDANCE PLANNING

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[Article by Wu Junyang [0702 0193 2254] of the Economic Research Center under the State Council: "On Guidance Planning"—written in December 1984]

[Text] The "Decision of the Central Committee of the CPC on the Reform of the Economic Structure" states that our "socialist planning system should be one that integrates centralization with flexibility." How should we proceed to establish such a planning system? I think that we should proceed from an effective implementation of guidance planning and from extending the scope of regulation by the market mechanism, which is related to guidance planning.

The Nature and Meaning of Guidance Planning

What is guidance planning? What is its essence? To study these questions, we must look at the relationship between the planned economy and the commodity economy. The "Decision" clearly states: "In reforming the planning system, we must first break with the traditional view that sets the planned economy against the commodity economy, and must clearly understand that the socialist planned economy is a commodity based on public ownership, where there is planning and where the law of value must be consciously relied on and applied." This is the most important conclusion derived from a summing up of our country's practical experience in planning work over the past 30 years or more, and this represents a basic starting point and a basic standpoint in our overall reform of the planning system. Proceeding from this standpoint, we may say that guidance planning is a category of planning whereby economic levers and, what is of particular importance, the law of value, must be relied upon and applied to regulate production, circulation, distribution, and consumption, so that the national economy can develop in a well coordinated way. Here two things are implied: For one thing, our national economy must persistently develop in such a way that proper proportions and good results are achieved; this is the goal of the planned economy; and for another thing, the role of the law of value must be fully developed; this is the means to the goal. In principle, directive planning must also embody a conscious application of, and must not violate, the law of value. For various reasons, however, conscious application of the law of value cannot be achieved for the time



being, and only administrative methods can be used to plan for production, circulation, and distribution. (The two most important reasons are that our irrational pricing system cannot be quickly readjusted and that a buyers' market has not yet appeared in the realm of circulation of the means of production.) Such is our existing directive planning, which has become the principal form of economic planning. However, this form of planning has many shortcomings; we often mention the shortcomings of excessive control, overly rigid control, overconcentration, and curbing of the enterprises' enthusiasm and initiative. Therefore, the "Decision" states that we must "appropriately, and in a step-by-step manner, reduce the scope of directive planning and extend that of guidance planning," and that part of the economy must be "regulated solely by the market mechanism." This has led to the present structure whereby three forms of planning coexist. Conceptually, it is not difficult to distinguish between these three forms of planning. Generally speaking, directive plans are mandatory and must be implemented, but guidance plans allow greater flexibility and the objectives of guidance plans are achieved mainly through the use of economic levers. In real life, however, it is very difficult to draw a hard and fast line between them; they are inextricably interwoven. If one insists on artificially separating them, one will inevitably run into many inexplicable contradictions. For example, guidance plans for many products serve as a complement to directive planning, so that actually those products are unavoidably subjected to directive planning. If new directive targets are permitted to be introduced at every level, then, at the level of the enterprise, the majority of targets will be directive in nature. How then can the enterprises' decisionmaking power be increased? Consider also the example of color television sets, for which the state formulates guidance plans. However, can the parts and components of television sets be made available solely through regulation by the market mechanism? It is impossible. At the departmental or provincial level, overall planning must be made by means of coordination. The most serious complaint of the lower levels is that although production tasks and allocation plans are in the form of guidance, there is often a great deviation from guidance regarding the conditions of production. Some comrades cynically say: What do guidance plans mean? They mean that "there are no upper limits to what the lower levels are required to provide, and no lower limits to what are supplied to the lower levels." Concerning the conditions of production, it is also very difficult to make detailed calculations and furnish a very perfect set of supplies, because if you want to very satisfactorily guarantee a supply of things that are needed, many things may have to be reassigned to the realm of directive planning and you are expected to include as many things as possible in your directive plans, but if you are to allow the existence of some gaps, it will be difficult for the lower levels to fulfill the plans and complaints will inevitably arise. Therefore, I think that in studying guidance planning, we must not devote too much effort to studying the question of how to distinguish between the three forms of planning, or the questions of management, the furnishing of reports to higher levels, assignment of targets to lower levels, supervision, assessment, and so on. These questions may be studied and some necessary rules can be formulated; however, the focus of study should not be on these questions, but should be on the



application of the regulatory functions peculiar to guidance planning, that is, on the use of economic levers to regulate all economic activities, including production, circulation, distribution, consumption, and so on. The "Decision" states: "Generally speaking, ours is a planned economy, that is, a commodity economy with planning, and not a market economy where regulation is solely by the market mechanism." The first and last parts of this sentence can be easily understood and everyone has always interpreted them in the same way; the crucial question is the middle part. Proceeding from the general guiding ideology concerning the "commodity economy with planning," we may derive the following idea: Judging from the prospects of development, with the reform of the entire economic structure, and in particular, with the reform of the pricing system and the price management system, and with the appearance of a buyers' market in the realm of circulation of the means of production, our national economic planning and social development planning will in general actually amount to a system of guidance planning, or "policy planning" (such a situation has already appeared in the realm of agricultural production planning, and will probably appear in the realm of overall national economic and social development planning with the rationalization of our country's industrial structure and pricing system in the future); there will be some directive planning (whose relative importance will depend on the scope, extent, and rate of the pricing reform and the reform of the goods and materials system), and there will also be some economic activities which are not formally subjected to planning, which will be "regulated solely by the market mechanism," but which actually will not be divorced from state planning (direct or indirect). In our economic activities and planned management, if we want to exercise management without causing rigidity and enliven the economy without causing chaos, the crucial method is to do a good job of guidance planning. The enlivening of economic activities entails the exercise of management, without which chaos will inevitably occur; however, we must not return to the old track, exercising management by strengthening directive planning, because this will inevitably lead to rigidity in management; we should rather exercise management through guidance planning without forgoing the necessary administrative intervention. That is, overall, planning is rough, elastic, and rather flexible, but there will be some hard tasks which must be fulfilled (for example, key construction projects, tasks for some major means of production over which the state must exercise control to ensure the building of key projects, and so on). Aside from this, control can in general be relaxed step by step and with different things treated in different ways, and regulation can be achieved through guidance planning. Such is the system, mentioned in the "Decision," whereby unity and flexibility are integrated. In the past, in our actual work, we frequently encountered this circular problem: "The exercise of control quickly leads to rigidity, which quickly leads to relaxation of control, which quickly leads to chaos, and which in turn quickly leads to the imposition of control." The root of this problem is that we did not satisfactorily solve the problem of how to use the law of value and the means of economic regulation to manage the economy; in other words, we did not satisfactorily solve the problem, existing in the planning system, of how to effectively develop the role of guidance planning. Therefore, I think it is absolutely

necessary to treat the satisfactory handling of guidance planning as a breakthrough in establishing a planning system with Chinese characteristics.

#### On the Scope of Guidance Planning

In the past, some people held this view: "Guidance planning is an important form of industrial planning and management." I think this view underrates the great significance of guidance planning. Having stated the scope of directive planning, the "Decision" states: "Numerous other products and economic activities will be subjected to guidance planning or completely subjected to regulation by the market mechanism in the light of different circumstances." That is to say, guidance planning is not only an important form of industrial planning and management, but is also important in other categories of planning (agricultural planning being now in the form of guidance planning) and in our overall economic activities. For example, in the realm of planning for investment in fixed assets, it is particularly necessary to use economic levers and the law of value to regulate the scale of construction and to guide the orientation of investment; otherwise, construction will be aimless, input will be stressed at the expense of output, and poor results or failure in the undertaking of investment due to policy errors will not involve anyone in any economic, administrative, or legal responsibility, so that the "malady of avidity for investment" can never be cured. Regarding projects in the technological transformation of enterprises, the state will in the future no longer assign to the banks directive-planning targets concerning loans, and will instead assign guidance-planning targets. The relevant departments in charge will only put forth proposals regarding whether certain projects should be undertaken or whether bank loans can be used, and the banks will conduct independent examination regarding whether loans should be granted to finance the projects, how much should be loaned, and when to grant the loans. This method can make both parties have concern for the projects with regard to success or failure, gain or loss, so that the results will certainly be better compared with gratuitous allocation of funds or "the substitution of loans for allocation" which still remains a method whereby the state assumes sole responsibility for everything. This is an example of the use of guidance planning in the realm of investment in fixed assets. Of course, the state must continue to allocate funds by way of directive planning in the case of some key construction projects which are important to the overall situation and which the departments or localities concerned are unable to undertake. Another example concerning the use of economic levers to regulate consumption is: Beijing and some other cities adopt the method of advance sales of color television sets in response to hefty buying on the market; this exemplifies the use of prices and interest rates as levers to regulate supply and demand and to guide consumption. Also, some cities of the south have lifted their control over the prices of aquatic products and livestock, and since then the market prices of those commodities have been gradually falling. These examples demonstrate that guidance planning and regulation by the market mechanism can play a role over a range much wider than that of "industrial planning and management." Therefore, the study of guidance planning must not be limited to the production and distribution of industrial products, but should extend

to the entire realm of economic activities embracing production, circulation, distribution, consumption, and so on. Of course, it is necessary to take industry as the focus of study in the light of its leading role in the national economy and its important position in the reform of the urban economic structure; however, it must not be divorced from the economic activities of society as a whole, particularly macroeconomic regulatory activities. The "Decision" states: "The greater the extent of enlivening the economy, the more necessary it is to pay attention to macroeconomic regulation, and to be good at comprehensively using, on the basis of opportunely mastering information about economic trends, economic levers such as pricing, taxation, credit, and so on, so that we can more satisfactorily regulate major proportional relations, such as those between total social supply and total social demand and between accumulation and consumption; so that we can more satisfactorily regulate the flow of financial, material, and human resources, the structure of production and the distribution of productive forces, market demand and supply, economic exchange with other countries, and so on." Here, the scope where economic levers can be used to regulate economic activities is much wider than the industrial sector of the economy. Practice has proved that the regulatory role of guidance planning is much more effective than that of directive planning. The "Decision" points out in particular that "for many years in the past we used to push forward the operation of the economy by administrative means at the expense of using economic levers for regulation. Learning to master economic levers and making this the focus of leadership over economic work should be an important task for economic departments at various levels, particularly for departments doing comprehensive economic work." I think in studying and practicing guidance planning, we should free ourselves from the conventions of the traditional product economy, proceed from the guiding ideology of "a commodity economy with planning," and gradually discover through experimentation, and in accordance with the line of thought in the "Decision," a set of methods for managing the economy by means of economic levers.

#### On the Prerequisites for Extending the Scope of Guidance Planning

In order to fully develop the regulatory role of guidance planning and to quicken the progress of an overall reform of the planning system, we should create some prerequisite conditions. In other words, the overall reform of our planning system must be synchronous with and complementary to the reform of other systems. In this sense, and strictly speaking, we do not yet have suitable conditions for extensively practicing guidance planning and we can merely advance amid probing. Our attitude must be positive and our measures must be steady and reliable; whenever we find some reform to be appropriate, we should undertake it. In formulating the annual plans for 1985, the State Planning Commission has vigorously strived to reduce the scope of directive planning and to correspondingly extend that of guidance planning; we must note, however, that this reform is merely an initial one if viewed against the goal, stated in the "Decision," of an overall reform of the planning system. We must continue to advance. In particular, some complementary reform measures must catch up with other reforms as quickly as possible. I think the following three major questions should be studied in this connection.

1. The quickening of the progress of the reform of the pricing system and price management system:

Because guidance planning involves the conscious use of the law of value to regulate production, circulation, distribution, and consumption, those regulatory functions which are peculiar to guidance planning cannot be brought into play if we do not undertake reforms of the irrational pricing system and the rigid price management system. It is pointed out in the "Decision": "The efficacy of various reforms of our economic structure, including reforms of the planning system and the wage system, depends to a great extent on the reform of the pricing system. Pricing is the most effective means of regulation. Rational prices amount to an important condition for ensuring that the national economy can be enlivened without causing chaos. The reform of the pricing system crucially determines the success or failure of the overall reform of the economic structure." Of course, it also crucially determines the success or failure of the reform of the planning system. The "Decision" clearly stipulates the principles of the reform. I think the planning bodies, which serve as departments exercising leadership over the comprehensive use of economic levers, must devote a great deal of effort to tackling this important matter; in accordance with the principles stipulated in the "Decision," and proceeding from developing the regulatory functions of guidance planning, they must comprehensively study specific steps in reform; as to the formulation of specific reform schemes, this is a task for the commodity prices departments. Will a reform of the pricing system cause a great and general rise in commodity prices? This will not occur if the quantity of currency issued is rigorously controlled. At present, the prices of certain mineral products and raw and semifinished materials, particularly energy resources, are too low, the enterprises producing them lack enthusiasm in increasing output, and the enterprises using those products are not forced to quicken technological transformation to lower the consumption of materials. If the prices of those products are appropriately raised, the situation will change, the development of production will be faster, and the reduction in consumption quotas will also be faster, so that a buyers' market in those products will eventually appear. In order to raise their own competitive ability, producers will strive to improve operation and management and quicken technological progress; costs will fall, market prices will also fall correspondingly, and a beneficial cycle of economic life will gradually appear. The development of principal agricultural products like grain, cotton, oil crops, and so on, and the situation emerging after the relaxation of the price controls in certain categories of aquatic products and livestock, serve to illustrate this point. I conjecture that after the readjustment of coal prices, output will vigorously increase while the consumption of energy resources will decrease, so that a buyers' market in coal may also appear after some time. In Jiangsu, for example, coal produced under cooperation was priced at 150 to 180 yuan per ton in the past; now, prices have fallen to between 80 and 120 yuan a ton because with the extension of the decision-making power of local coal mines, small coalpits in Guizhou and Sichuan have been vigorously increasing output, coal is carried downstream along rivers, and resources have increased. Jiangyin, Wuxi, and Peixian purchased

coal from Shanghai in the past; now, with the appearance of an excess supply of coal in Jiangsu, the market prices of coal in Shanghai have undergone drastic change: At the end of June 1984, coal from southeast Shanxi was priced at 167 yuan a ton, but in less than a week, the price of coal sent to Shanghai from some other localities fell to 120 yuan a ton; and later, with the increase in supply, the price fell to 100.1 yuan a ton in July and to 93.1 yuan a ton in August. In the past, when coal supplies were inadequate, purchases would be made at a price of 130 yuan a ton if the quality of the available coal was not too bad. Now, with supplies coming from a larger number of sources, purchases can be made selectively according to the following criteria: First, the calorific capacity must not be less than 5,500 kilocalories; second, the price must be around 90 yuan; and third, loading and unloading must be convenient and wastage must be low. Here, I think to tell whether guidance planning or regulation by the market mechanism is responsible is both difficult and of no practical significance; what is of practical significance is that price as an economic lever is playing a role in helping bring about a beneficial cycle of economic activities. On a larger scale, this situation may occur sooner or later in the case of other means of production some time after the reform of the pricing system and the readjustment of the industrial structure; then, we will be able to exercise our initiative in mastering and applying guidance planning.

## 2. The quickening of the progress of the reform of the goods and materials management system:

When we call the classification of three forms of planning is to a great extent related to the goods and materials management system. In the past, in accordance with the planned management system that was marked by overcentralization, planned distribution (centralized distribution or management by departments) was always the main form of circulation of the means of production. This form of distribution was extremely unfavorable to the enlivening of the economy and it resulted in a negative situation marked by control quickly leading to rigidity and relaxation of control quickly leading to chaos. In line with the reform in reducing the scope of directive planning and extending that of guidance planning, the scope of centralized distribution of the means of production must be reduced, and the scope of regulation by the market mechanism, as well as the scope of direct transactions between producers and buyers either through means of production trade centers or not through such centers, must be extended. In the light of the initial experience of some localities in setting up means of production trade centers (or what are called comprehensive goods and materials trade centers in certain localities), the following tentative views can be put forth: Aside from those goods and materials marketed by the enterprises on their own, those means of production formerly distributed according to state planning can be divided into three categories: First, those which are needed for production at key enterprises or for ensuring the building of key construction projects (including major technological transformation projects), and which are directly supplied to some designated units according to state plans; second, those which are handed over to trade centers where transactions between producers and buyers take place at negotiated prices; and third, those which are sold

by retail outlets directly or through trade centers. For the first category of means of production, which are in general compatible with directive planning, the trend should be an appropriate reduction in scope, and their supply should be relatively satisfactorily guaranteed, but their prices should not deviate excessively from negotiated prices prevailing at trade centers; otherwise, it will be very difficult to ensure equilibrium between supply and demand. For the second category, which are in general compatible with guidance planning, open markets for transactions and open market prices can be established, prices can be allowed to vary according to the kind of trade or the market conditions, and various categories of services (like postal and telecommunications services, remittance, hostels, catering, advertising, legal advice, information consultancy, and so on) can be launched, so that the centers can become attractive means of production trade centers and information centers. Buyers and sellers at the trade centers must be legal, and some of them can set up offices for marketing or making purchases in these centers. A crucial question is that prices must be open and management must be strengthened. According to some sources, some iron and steel enterprises are now setting up offices in Shenzhen to sell steel products in short supply at high prices; some consumers in inland regions which have been unable to secure an adequate supply of steel products now purchase them in Shenzhen and then take delivery of the goods, by presenting receipts, in Shanghai, Beijing, Wuhan, Xiangtan, and so on. In this case, management is impossible if we rely on administrative measures alone. In Wuxi, after the setting up of the comprehensive goods and materials trade centers, 7 out of 8 specialized companies under the municipal goods and materials bureau joined it, the exception being the metal products company. The manager of that company said: "People come to knock at the door to buy steel products even in the middle of the night. Why do we need you?" After the lifting of controls on prices, however, that company also joined the center. If this type of trade centers is set up in some central cities and prices are determined according to the kind of trade and market conditions, it will no longer be necessary to have many intermediate links or to set up offices in Shenzhen. At those centers, both spot buying and buying of futures are possible, transactions can be carried out, and information can be obtained, so that greater attention can be paid to marketability in production, the reduction of inventories and the turnover of capital funds can be quickened, and the regulatory role of guidance planning in guaranteeing an adequate supply of goods and materials can be more satisfactorily brought into play.

3. The financial system must undergo reform and the banks' regulatory role in the achievement of macroeconomic equilibrium must be brought into play.

Concerning macroeconomic equilibrium, a marked current problem is that growth in both the investment in fixed assets and the residents' purchasing power exceeds the growth in output and the trend is difficult to check; both unbudgeted funds and the enterprises' own funds to be used at their own disposal are growing faster than budgeted funds; and the issuance of currency also greatly exceeds original planned targets and greatly surpasses the growth in industrial and agricultural output and the growth in the volume of retailing of commodities. These factors have together



led to an expansion of the social purchasing power and the scale of investment, so that the prices of some commodities and means of production in short supply have risen. The analysis and interpretation of these phenomena are related to what methods should be used in the future to solve the problem of equilibrium between aggregate supply and aggregate demand. The use of simplistic administrative measures and directive planning to curb the growth of investment in fixed assets and the growth of purchasing power is obviously impossible, and is not necessarily useful. Why? After the streamlining of administration and the delegation of powers to lower levels, under the condition that decisions are now made at many levels and the domestic economy must be enlivened and must develop openness while our country is being opened to the outside world, the strengthening of horizontal links between various realms like economy, technology, goods and materials, capital funds, and so on will be conducive to promoting integration of various localities and departments and to developing the particular good points, and circumventing the particular shortcomings, of each locality or department. The coordination of these horizontal links can be achieved only by means of guidance planning, and directive planning is useless. For example, in Jiangxi, funds amounting to 300 million yuan were raised in 1984 by various categories of economic combines by tapping local resources. The rapid growth of industrial output over the past several years demonstrates on one hand that our industrial enterprises have enormous potential, and reflects on the other hand the fact that the hefty growth of investment in fixed assets and the residents' purchasing power, together with the resulting increase in aggregate demand, constitute an important reason for the rapid growth of industrial output. Thus, there are both a positive effect (the rapid growth of social production, and some localities and enterprises becoming well off before others do) and a negative effect (increases in the prices of certain commodities in short supply); in order to solve the problem of equilibrium between aggregate demand and aggregate supply, we can only make use of the regulatory functions of guidance planning, adroitly guiding action according to circumstances. Regarding the distribution and use of accumulation funds in agriculture, the former practice was that the wealth created by the peasants was pooled through pricing and then expended through investment, with poor results; now it is the other way round: This sum of money is retained in the countryside through price increases and the peasants are allowed to decide how to use it, so that results are now much better. The same principle also applies in industry. We must continue to adhere to the guiding principle of basically achieving equilibrium in finance, credit, goods and materials, and foreign exchange payments and receipts; but this type of equilibrium, instead of being a static one, is a dynamic one which must be achieved amid the enlivening of the economy. Considering equilibrium in credit, the banks' role will be increasingly more important under the guiding principle of making greater use of loans to sustain economic development. Although a mild inflation is actually difficult to avoid (the extent of inflation and the reform of the monetary system entails a separate study), we must persist in cutting or stopping fiscal issues; regarding loans for financing production, we must conscientiously achieve the following three things: 1) In conjunction with the use of fiscal funds, we must satisfactorily master the orientation of investment

(regulation must be carried out by determining, in accordance with macro-economic policies and equilibrium, the desirability of granting loans, the level of interest rates, the terms of loans, and the appropriate level of the proportion of the enterprises' own funds that are to be at their own disposal); 2) we must pay attention to the results of investment (the level of profits as a percentage of capital funds used must be higher than the interest rate charged by banks in the case of projects for creating production capacity); and 3) the time limits for the repayment of investment loans must be shortened and the sums repaid can be loaned again, so that the turnover of capital funds can be quickened. In this way, it will be possible to achieve equilibrium in the movement of capital funds by adroitly guiding action according to circumstances. It is thus necessary to do a good job of comprehensive financial planning and to make use of this planning to examine the detailed movements of funds so that regulation can be promptly undertaken. Moreover, credit planning must be strengthened. In consumption, there is also a question of how to basically achieve equilibrium between aggregate supply and aggregate demand amid movement. In this connection, it is crucial to make the workers' wage income (including bonuses, allowances, and so on) grow at a faster rate than commodity prices, and make labor productivity increase faster than wages. Practice has proved that a rise in commodity prices will stimulate an increase in the output of commodities in short supply, and when the growth in output reaches a certain level, prices will fall, but wages will not fall, so that it is the ordinary people who become better off. In this regard, the banks can also use economic levers like interest rates to bring the regulatory role of guidance planning into play.

Of course, aside from the three categories of reform mentioned above, there are other complementary measures which must be carried out synchronously, but the same principle applies.

Lately, I put forth another proposal concerning guidance planning, namely, that the GNP be taken as a comprehensive indicator for assessing the rate of economic development. A major characteristic of guidance planning is that it performs many functions involving the use of various categories of economic levers to regulate economic activities. These functions include the regulation of supply-demand relations and major proportional relations, and the regulation of industrial structure and product pattern. Taking the GNP as a comprehensive indicator of national economic development does not imply an intention to change the goal of our endeavor formulated at the 12th CPC Congress, namely, the goal of quadrupling the total value of industrial and agricultural output by the year 2000; it merely means that the deployment of actual work should proceed from GNP growth. This proposal has been put forth by many comrades. Some localities (like Shanghai) have already been implementing it. I think it is necessary to restate this proposal in a discussion of guidance planning. If it is implemented, we can avoid the misconception that industrial and agricultural production alone can increase social wealth while other industries cannot do so at all or cannot directly do so; we can also avoid the consequent focusing of our attention mainly on the increase of total industrial and agricultural output value, thus unconsciously slackening the application of the



regulatory role of guidance planning to develop transportation, postal and telecommunications services, the building and construction industry, commerce, the financial industry, and various other categories of social services. At present, a series of shortages are appearing on a wide scale in various localities, so that it is difficult to buy coupons, find accommodation, have a meal, travel by public transport within a city, find a cubicle to live in, make phone calls, send children to nurseries, obtain tailoring service, and so on; these shortages cannot be said to be unrelated to the one-sidedness of simplistically paying attention to the boosting of industrial and agricultural output. In planning for actual work, therefore, taking GNP growth as the starting point will be conducive to readjusting our industrial structure by proceeding from China's actual condition, particularly from the need for developing a commodity economy, so that the attainment of a beneficial national economic cycle can be promoted. I believe that the result of doing this will not adversely affect, but on the contrary will be conducive to, the overall goal of quadrupling the total value of industrial and agricultural output by the year 2000.

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[Article by Wei Daonan [7614 6670 0589] of the Agricultural Economics Research Institute of the Chinese Academy of Social Sciences, and Zheng Zhixiao [6774 1807 2556] of the Agriculture Department of the Postgraduate Institute of the Chinese Academy of Social Sciences: "On the Peasants' Self-Employed Economy"--written in November 1984]

[Text] During the past few years, as our party has readjusted its rural economic policies, a trend of the development of the peasants' self-employed economy has emerged in the rural areas all over our country and has become a conspicuous economic form. Adopting a correct attitude toward this economic form is of theoretical and practical significance.

Beginning and Development of the Peasants' Self-Employed Economy

The term peasants' self-employed economy denotes the undertakings run on their own by peasant households that do not belong to the collective economy, and is therefore an economic sector independent of the collective economic sector. At present, it denotes that section of economy outside the economy of the contract responsibility system. Its development has undergone twists and turns since the cooperative movement.

After the agrarian reform, the peasants' self-employed individual economy existed everywhere in our country. Later, when the socialist transformation of our agriculture was completed, an all-round cooperative transformation was realized in our rural areas. As a result, a socialist agricultural economy of collective ownership was established everywhere and the peasants' individual economy was almost eliminated except for small areas of private plots and family sideline undertakings which were run by peasants by themselves. The 1955 "Draft Exemplary Regulations of Agricultural Production Cooperatives" definitely provided that cooperative members' means of livelihood, small plots of land, scattered trees, poultry, animals, small farm tools and tools needed for undertaking sideline occupations would not be transferred into public ownership in the agricultural production cooperatives either at its initial or at its advanced stage, and that cooperative members were allowed to have small private plots. However, at the later stage of the cooperative movement, it was stipulated that the income of a family of

cooperative members from its private plot and family economy could only account for 20-30 percent of its total income, and was not allowed to go beyond this limit. At that time, the income of a family of cooperative members was not high. In 1957, the per capita net income of cooperative members in the whole country was only 72.95 yuan; of which the net income from family sideline undertakings of cooperative members constituted only 29.4 percent, so that the annual per capita income from sideline undertakings was only 21.46 yuan.<sup>1</sup> However, even this weak self-employed economy was regarded as the "remnants of private ownership" and abolished during the people's commune campaign in 1958. It was not until 1962 when people's communes underwent consolidation, that the "Draft Revision of the Regulations on the Work Related to People's Communes" again pointed out: "Under the conditions of vigorously and satisfactorily running the collective economy, not hindering the development of the collective economy, and guaranteeing the absolute ascendancy of the collective economy, a people's commune should allow and encourage its members to spend their spare-time and holidays in developing their family sideline undertakings and thus increase social products and their income and enliven rural markets." In September 1965, the CPC Central Committee and the State Council again issued the "Instructions on Vigorously Developing Rural Sideline Occupations," which pointed out: "The family sideline undertakings of commune members are a necessary supplement to our socialist economy. From the point of view of our rural sideline undertakings, for a long time to come, the family sideline undertakings of our peasants will continue to occupy a certain position." However, during the "Great Cultural Revolution," the "leftist" ideological tide ran rampant, the "three privates and one contract responsibility system" were criticized, and the "capitalist tail" was cut off. Peasants were not only forbidden to give up agriculture to go into commerce, but their private plots were time and again reduced. As a result, the peasants' self-employed economy was on the verge of extinction and our rural economy was in a stagnant and confused condition.

Since the 3d Plenary Session of the 11th CPC Central Committee, our rural situation has begun to take a radical turn for the better. History has provided two aspects of conditions for our peasants to develop their self-employed economy. On the one hand, there are the political factors that have been expressed in the party's and state's principles, policies and decrees, of which the major ones are: the widespread popularization of the household-based contract responsibility system to grant the peasants greater decision-making power in their production and management; the expansion of private plots and the pieces of land for growing animal food to encourage and help commune members to develop their family sideline undertakings and the giving of permission for peasants to be entirely engaged in their own sideline undertakings; the practice of encouraging and supporting peasants to form sole proprietorships and partnerships to undertake cultivation, transporting goods away for sale, industry, handicrafts and service trades; the reopening and expansion of urban and rural market fairs; and the formal recognition by the state of the legitimate position of the supplementary individual economy. In addition, they have also facilitated the peasants' economic activities through the readjustment of price policies. On the other hand, there are economic factors, of which the major ones include: First, as the natural

condition of little land for many people determines the surplus of agricultural labor force, since the implementation of the agricultural production responsibility system, our labor productivity has risen. As a result, surplus laborers are urgently demanding a way out. Second, there should be new opportunities for the investment of new surplus funds and our peasants are keen to find new ways for expanded reproduction. Third, there are large numbers of various kinds of skilled workers who want to find an outlet for their skill. Fourth, our country has rich natural resources, which provide a sound material foundation for our peasants to develop their self-employed economy. Fifth, our country's state-owned and collective economies are not sufficiently developed and our economic structure fails to be perfect in many aspects. Therefore, they are not able to organize our rural economy and thus enable it to carry out entirely rational production and reproduction, nor are they able to realize rational circulation of goods between our urban and rural areas, between our departments, and between our areas entirely through the socialist channels. This has provided the possibility and necessary for our peasants to establish their self-employed economy.

Judging by the present situation, there are roughly two kinds of operation of the peasants' self-employed economy. One is concurrent occupations. Usually a householder who undertakes agriculture uses his means of production, funds, and surplus labor to conduct certain production and management activities without giving up the land that the collective has assigned to him. This will increase his income. The other kind is where a peasant householder entirely gives up his occupation on the land assigned to him by the collective (either by refusing to undertake contract responsibility for tilling land or by transferring the contract to other people) and goes in for nonagricultural undertakings such as establishing a relatively stable family factory. At present, most of the peasants who have their self-employed undertakings are of the first kind. What they are doing now has already far exceeded in importance their previous activities of tilling some private lots and conducting some family undertakings at the time when they were commune members. In the past, the family sideline undertakings were mainly carried out to satisfy the demands of the livelihood of the family and were a supplement to the self-sufficient economy. However, today, our peasants conduct concurrent sideline undertakings in order to produce commodities; therefore, these sideline undertakings are a form of the development of the commodity economy. In this sense, we can say that the self-employed economy is a consequence of the 3d Plenary Session of the CPC Central Committee.

As for the percentage of the income from our peasants' concurrent sideline undertakings in their total income, there are the following three cases:

- 1) They are mainly engaged in agriculture and concurrently do other work;
- 2) they are mainly engaged in industry and concurrently do other work; and
- 3) they are mainly engaged in commerce and concurrently do other work. As for the forms of their undertakings, there are the following main categories: 1) The laboring type--peasant households utilize their abundant labor force to be engaged in some relatively simple nonagricultural operation of which the main input is labor, and the income from this kind of nonagricultural labor accounts for an important part or even the main part of their income; 2) the capital type--some peasant households have accumulated a relatively large

amount of capital and are thus able to carry out some capital-intensive production and management activities such as the provision of the service of carrying goods some distance away for sale with the large transport equipment that they have purchased; 3) the skilled type--some peasants are skillful workers and use their skill to be engaged in certain kinds of operations such as providing itinerant services or establishing factories and shops to provide technological services for peasants or urban residents; 4) the comprehensive type--some peasant households have both skill and surplus funds and plenty of labor and are thus provided with even better conditions for developing their self-employed economy. The above-mentioned four forms are not isolated one from another, or fixed. They vary with the times. For example, those who mainly rely on their labor to develop their self-employed economy can also accumulate funds. When they have accumulated a certain amount of funds, they will be able to independently develop economic undertakings that combine financial and labor resources. For another example, when the skilled peasants have accumulated enough financial provision of itinerant services they will settle down in their homelands or in towns or cities to conduct business and those who run their businesses on a relatively large scale have to employ a number of workers.

In view of the trades that peasants undertake in their self-employed economy, their activities cover all the spheres of rural economy. However, as our country has already established the collective ownership of land, except for on the barren land in a small number of remote border areas, there has been little development of the self-employed undertaking that mainly conducts the operation of tilling land. Most of the self-employed peasants carry out their undertakings away from their land or rely very little on their land in conducting their undertakings. From the viewpoint of the geographic layout of their business, generally speaking, in the areas where there has been relatively developed collective economy which covers a wide range of production operation and earns a relatively high income, the peasants' self-employed economy achieves only relatively small development; while in other areas it develops quite a lot, and quite quickly.

#### Position of the Peasants' Self-Employed Economy

The major readjustment and reform in our country's socialist relations of agricultural production is causing the rural productive forces to realize the transformation from a one-sided development to an all-round development, from traditional agriculture into a modern agriculture, and from a closed natural economy into a commodity economy. This is the concrete historical environment in which our peasants have been developing their self-employed economy. Only when we understand the characteristics, and limitations that have been displayed in the process of this profound historical transformation can we correctly understand its position in our country's socialist agricultural system at the current stage.

Therefore, it is necessary to first make a brief analysis of the agricultural productive forces and relations of production in our country. Through more than 30 years of construction, the various sectors of our country's national economy have augmented their strength to support our agriculture,

to a fairly great degree, while our agriculture has also made much progress in establishing water conservation facilities for our farm land and in procuring farm machinery and applying agricultural science and technology, and our agricultural productive forces have thus been greatly strengthened. However, generally speaking, we have not yet made any radical change in the backwardness of our agricultural production. This is mainly shown in the following: 1) In most areas throughout the country manual tools and manual labor are mainly employed; 2) our peasants are poorly educated and are of poor technological level, and more than one-fourth of them are illiterate; 3) our basic-level rural cadres have poor management and administration ability and quite a few of them are illiterate; 4) our agricultural labor productivity is very low; 5) socialization and specialization is very underdeveloped and the commodity rate of our agricultural products is still low; and 6) the economic development is markedly uneven. This multitier productive force at a low level demands corresponding multitier relations of production. In other words, under the condition of maintaining the predominant position of the socialist economy based on the public ownership of means of production, we should allow diverse economic forms and factors to coexist. However, for a long time in our people's commune management system, there was basically the uniformed combined production on the basis of land and a uniformed collective economic pattern, with a centralized management, concentrated use of labor resources, and a system of distribution according to work points. This system not only excludes all private sectors but also excludes any other kind of combined operation in carrying out agricultural production. As this system was not suited to our country's national condition or to the state of affairs of our country's agricultural production, it caused a prolonged stagnation in our rural economy and delayed the historical process of the transformation from a self-sufficient and semi-self-sufficient production into a socialized commodity production.

If we say the contract production responsibility system is a reform in the old pattern that was characterized by a centralized management, concentrated use of labor resources, and a system of distribution according to work points, then the rise of the diverse forms of the peasants' self-employed economy means a negation of the previous uniform economy and management. Under our specific historical conditions, it plays a progressive role.

The fact that the peasants' self-employed economy can to a certain extent meet the demand of the development of rural productive forces at present is determined by its characteristics, which can be summarized as "small scale," "flexible operation," and "high economic results."

1. Small scale. At present, most of the peasants' self-employed economic entities are of relatively small scale and have relatively little capital. A factory or shop can be set up by spending a few hundred or thousand yuan to purchase equipment and employing a few laborers.
2. Flexible operation. The management methods, movement of funds, and arrangement of labor force are all relatively flexible. All these entities, whether they are family factories, husband and wife shops, family animal and poultry farms, family clinics or individual traders who are engaged in

transporting goods for sales, pay close attention to the demands in the market, promptly change their products or shift to other trades in light of the change in market situation, flexibly manage their production and operation, purchase only a small amount of raw materials and goods so as to reduce their stock and speed up the turnover of their capital and independently and flexibly employ and dismiss their employees according to the needs of their operation.

3. High economic results. The self-employed economy is most directly linked with the peasants' economic interests; therefore, they do not grudge time and efforts, make plans carefully, get up early and go to bed late, and do anything they can to reduce their expenditure and production costs.

The peasants' self-employed economy has played a positive role in boosting the development of rural productive forces and enlivening our urban and rural economy. This is concretely shown as follows:

1. It has opened up spheres and commodity markets for rural production. The entities of the peasants' self-employed economy can be engaged in the production that does not use or uses only a small amount of farm land, and they are also able to undertake those production undertakings in which it is still impossible or difficult to carry out large-scale modern production and thus they can make full use of the rich natural resources in our rural areas. In the sphere of circulation, individual commercial entities and individual households that transport goods for sales can set up their purchase shops in the remote mountainous villages where our supply and marketing cooperatives have never reached, make itinerant purchases of goods in various villages, or set up shops to compete with state-owned and collective commerce, increase the sales of industrial and agricultural products and fill the blank spots in our rural commercial network. They can also urge the state-owned and collective commercial enterprises to reform their management methods and system, enable an increasingly large number of peasants to more directly and frequently exchange commodities with the outside world, and strengthen the economic relations between various rural households, between our urban and rural areas and between various areas.

2. It boosts the development of rural commodity economy and satisfies the diversified demands of our state and the livelihood of our urban and rural people. What our collective economy established in the past were production units where each was "small and all-inclusive." Macroeconomically, these units are not conducive to social division of labor and inside each of these units, the specialized division of labor among its workers is also negated. At the beginning of the emergence of the responsibility system of the "two contract responsibilities" type, we failed to break away from the "small and all-inclusive" pattern of family management, but gradually, we developed the "small and specialized" operation and thus gave rise to a number of self-employed "specialized households." In the sphere of production, we have enabled our rural production to expand in depth and width, while in the sphere of circulation, we have gradually opened up diverse circulation channels in our rural areas. Moreover, these self-employed entities have become a force to boost the development of rural commodity production and



to make production meet the demands in our rural and urban market. The development of these economic entities has gradually readjusted our rural economic structure, reduced some peasants' dependence on land and promoted the relative concentration of the land of the collectives. As a result, an increasingly larger number of specialized households that undertake responsibility by contract for tilling land have emerged. Specialized production demands a socialized service. The peasant self-employed economy can undertake the tasks to provide this kind of service. At the same time, a specialized production directly caters to the needs of the market and has a relatively high commodity rate. Therefore, the development of specialization and socialization is a force to push forward the development of the current stage of our socialized commodity economy.

3. It finds an outlet for rural surplus labor. The rural surplus labor has to a great extent been caused by the past practice of bonding our peasants to their land and making them engage in a uniformed undertaking of cultivation. Our current economic policies have already freed our peasants from the farm land. The peasants who have left their land are faced with three alternatives. The first is to be absorbed by state-owned industrial, commercial, and service enterprises; the second is to enter township and town collective enterprises; and the third is to find employment on their own by forming new-type economic combines or establishing sole proprietor firms to develop peasant self-employed economy. Judging by the present situation, the number of rural households that are engaged in self-employed undertakings is fairly large and these households have almost permeated all the sectors of production, circulation, and the service trade and absorbed a large amount of rural labor.<sup>2</sup> These people either do not leave their homelands or only leave their land to develop nonagricultural undertakings in their homelands, or leave both their homelands and land and go to cities and towns to carry out their economic activities. As a result, the tension in the situation of having rural surplus labor has been to a certain extent eased. Objectively, they have also promoted the transference of rural population away from agriculture and the readjustment of our rural production structure.

4. It facilitates the popularization of science and technology in our rural areas and the fostering of a generation of new-type peasants and promotes the transformation of our country's agriculture to modern agriculture. At present the principal force of our peasants in developing the peasants' self-employed economy is the middle-aged and young peasants who have received some education, have some knowledge, and know something about administration and management. These people have quick minds, are keen on study and have great capacity for accepting new things. They often take the lead in learning and applying science in our rural areas. They can very satisfactorily combine traditional and modern technology and strive to decide the direction of their investment in light of the actual needs of the development of their production and accordingly select the new technology and purchase new equipment. By so doing, they will chart out a new path for the modernization of our country's agriculture. Through their independent economic activities, they will heighten their ability in meeting the market demands and in planning and budgeting for their undertakings. Some qualities that our country's peasants need in the future have begun to emerge in them.



5. It is conducive to increasing the income of our rural households and enabling them to become rich together. It is hard for our peasants to become rich if they are engaged only in farming on their land. "There is no stability without agriculture, no vitality without commerce and no way to become rich without industry." This saying shows a deep understanding of the rural economy in our country. The diverse forms of self-employed economy provide our peasants with a way to become rich. Anyone who is an "able man" who can develop his self-employed economy satisfactorily will take the lead in becoming rich in our rural areas. Because they take along other people, the pace of all our peasants in becoming rich has been quickened.

6. The peasants' self-employed economy also quickens the pace of the construction of our small rural towns. Stimulated by the commodity economy, some skillful workers and people with management ability have settled down in towns without being provided with quota supplies of food grain. They have brought their funds, labor, and skill to rural towns to promote their construction, filled these towns with vitality, and added new blood to them. The prosperous competition and development of hundreds of firms in these towns attract an increasingly larger number of consumers around them. On the one hand, the entry of these peasants into our towns partially helps overcome the difficulties of the state's and collectives' shortage of funds and technological force for the construction of small towns; on the other hand, it increases the state's tax revenue and directly increases the state's construction funds. Of course, they also help to ease the contradiction caused by the shortage of land for so many people and reduce the demand for farm land.

Of course, while confirming the positive role of the peasants' self-employed economy, we should also see its negative side. For example, the entities in this economy are to some extent blind in selecting their lines of production and this will have some bad impact on the state plans. In handling this and other similar problems, we should see: On the one hand, this is a manifestation of the limitation of the peasants' self-employed economy; and on the other hand, this is the consequence of the operation of the law of the commodity economy. In the light of the requirements of the development of the planned commodity economy, it is still necessary to further reform and perfect various systems of our socialism. Only by making an all-round analysis of the peasants' self-employed economy and correctly understanding its position can we formulate feasible policies and measures to give full play to its initiative and restrict its negative role as much as possible.

#### Trend of the Development of the Peasant Self-Employed Economy

The peasant self-employed economy is an economic sector in which laboring peasants use their private means of production to carry out production and management activities, operate as independent accounting units and shoulder sole responsibility for their profits and losses. It is of the nature of individual economy. It is impractical to regard it as a constituent part of our socialist collective economy or as a contract responsibility economy. Among the self-employed economy, the self-employed economic nature of the industrial and commercial service undertakings that are undertaken

independently by the peasants who have completely cut themselves off from the collective economy, is relatively easy to define. As for the peasant households who are concurrently engaged in contracted collective production and self-employed undertakings and who use some of the means of production owned by the collective in the process of their production, it is difficult to make a clear distinction between their contract responsibility economy and self-employed economy, therefore it is difficult to define its nature. In fact, judging by the current reality in our rural areas, in most of the areas where the household-based contract responsibility system is being implemented, except for the land which is still owned by the collective, the peasant households control and use few other means of production that are still owned by the collective. In view of the whole process of the peasant households' production and management, the self-employed economic part of their production and management need not sign responsibility contracts with the organizations of the collectives. In conducting this part of their undertaking, they shoulder no responsibility and have no duties for the collective nor do they enjoy any rights or interests from the collective. Except for their obligation to obey the various regulations of the state, those who carry out this part of production have perfect decisionmaking power over the production, exchanges, and distribution; therefore, we can say that it is not difficult to define the self-employed part of their undertakings.

Admitting that the peasant self-employed economy is an individual one does not mean that we should adopt measures to eliminate it. On the contrary, it is a historical necessity to allow it to exist in our socialist society for a long time. The present stage of the individual economy in our country is linked with the socialist economy owned by the public, and different from the individual economy that is linked with the capitalist private ownership. As was mentioned above, it plays an irreplaceable role in developing the socialist commodity economy, providing convenience for people's livelihood, increasing job opportunities and raising our peasants' income, is a necessary and useful supplement and is subordinate to the socialist economy. The 3d Plenary Session of the 12th CPC Central Committee clearly pointed out that in order to quickly develop various production and construction undertakings and in order to relatively quickly realize the goal of making our country prosperous and our people rich and happy, we must give play to all the positive factors, implement, under the guidance of the state policies and plans, the principle of allowing the state, the collective and the individuals to make efforts together, and persist in developing diverse economic forms and diverse management methods. This is our long-term principle.

Since the peasants' self-employed economy is the outcome of a certain historical period, its growth or withering away are necessarily restricted by historical conditions. We think that for a fairly long historical period in the future, there will be a certain extent of development of the peasants' self-employed economy. However, we should also see its relations with various sectors of the society and the various kinds of factors that restrict it. The following are the major relations and factors:

1. Its relation with the socialist economy. Organizationally, a peasant can partially or completely be divorced from the collective, but economically, he can never avoid having relations with the socialist economy. In the sphere of production, there are often the following two kinds of such relations: The first is that the state economic units of foreign trade and commerce sign contracts with self-employed peasants on the supplies of raw materials (seeds, small animals, fertilizer, animal food and so on) and the purchases of products; and the second is that on the basis of the peasants' independent management, the state or collective economic units and peasants form new economic combines on the principle of voluntary participation and mutual benefits to conduct comprehensive or specialized production, supplies and marketing, and other operations. During the process of the operation of the combines, the peasants and the state or collective units each retain their status as independent accounting units. The self-employed economy in the sphere of circulation and service trade is also more or less related to the public economy. As the socialist economy develops and becomes prosperous, these relations will intensify and restrict the development of the self-employed economy.

2. Its relation with the socialist legal system. The state's legal system guarantees the legitimate position of the peasants' self-employed economy. However, it must punish according to the law the acts that violate the regulations or the law such as those that undermine the state's resources, the practice of passing off defective goods as good ones and disturbing our market, tax evasion, speculation, fraud and other malpractices that are aimed at earning windfall profits. This will also restrict the management principles and direction of the self-employed economy.

3. The perfecting of the various economic systems of socialism. Our country's economic systems in the past were basically established in accordance with the principle of natural economy. Our many years of practice showed that it had quite a few defects. As our rural reform deepens and urban reform develops, a new system of planned commodity economy based on the public ownership will emerge. This will have two effects: On the one hand, our state and collective enterprises will become independent economic entities that are filled with vitality and vigor and their production and operation will be fully diversified, flexible, and aggressive. This will restrict the part of the individual economy that has developed by exploiting the opportunities caused by the problems in the operation of the state and collective enterprises. On the other hand, the perfection of various systems related to prices, taxation, credit and planning will vigorously ensure that the individual economy develops along a correct line.

4. The impact of our socialist culture and ideology on the self-employed economy. This impact is many-sided and has exerted an imperceptible impact on people's thinking. For example, our socialist political and ideological education is remolding the mental state of our peasants, our cultural and knowledge education is remolding the habits and customs of our peasants, our scientific and technological education is remolding the peasants' old modes of production. Compared with peasants in the 1950's and 1960's, the peasants now are very different in their quality, political consciousness and

so forth. The continuous deepening of the construction of socialist spiritual civilization will certainly exert a more profound influence on our peasants' ideology.

5. Its relation with the development of socialist productive forces. This is the factor which finally determines the fate of our peasants' self-employed economy. Every new progress in the productive forces will deepen the division of labor, along with which the scope of cooperation will enlarge too. Thus, it will become increasingly possible and necessary for our society to control economic activities. The increase in the productive forces of the whole society will gradually eliminate people's parochial ideas on their economic interests and will enable a thorough reform in the peasants' whole mentality. As a result, the conditions for the existence of individual economy will weaken gradually and will even finally wither away in the boundless ocean of socialist publicly owned economy. At present, in some areas there is a trend to the development of the peasants' self-employed economy, where the peasants are willing to form new economic combines with other peasants or with the units of state-run and collective enterprises and undertakings in order to enlarge their production scale and earn a steadily increasing income.

To sum up, the emergence, development and withering away of the peasants' self-employed economy is a natural and inevitable process. It is a very long process of development. Attempting to eliminate the individual economy too early, pursuing the so-called "pure socialism" under the condition of under-developed productive forces, and pursuing uniformity in production and an absolute egalitarianism in distribution, all run counter to economic laws. Marx and Engels pointed out: "The establishment of communism is in essence economic in its nature. This means creating various material conditions for this kind of union and switching the existing conditions into combined conditions for it."<sup>3</sup> What this talks about is an advanced union of communism, but this idea has deeply enlightened us in the question of how to properly handle the various kinds of combines of diverse forms and different degrees in the rural areas of our country now. Fundamentally speaking, the development of the peasants' self-employed economy in the direction of union, is the process of our economic development and follows the economic laws. If we speed up union artificially, we will follow the beaten path. Of course, it does not mean that the artificial factor is useless. On the contrary, the party and the state must formulate positive economic policies and measures and grasp the historical process. Our current policies must enable our peasants to dispel their misgivings and encourage, support, and guide our peasants to develop a healthy self-employed economy which benefits the state and people and to tap the economic potentials in our rural areas to the maximum. We should work out and perfect various laws and regulations as soon as possible and readjust some of the regulations in them and conscientiously protect the development of individual economy by legal means. At the same time, under the principles of absolutely refraining from going against the desire and economic interests of our laboring peasants, we must gradually employ our economic means to influence and control the socialist orientation of the peasants' self-employed economy.

#### FOOTNOTES

1. "Almanac of China's Statistics" (1983), p 499.
2. According to our statistics, in 1983, there were 4,195,000 households and 5,380,000 people engaged in the individual industry and commerce in our rural areas, respectively an increase of 2,690,000 households or 179 percent and 3,540,000 people or 192 percent over 1982. Refer to JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY], 20 August 1984.
3. Marx and Engels: "On German Ideology," "Collected Works of Marx and Engels," Vol 3, p 79.

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METHODOLOGY OF ALL-ROUND ECONOMIC REFORM DISCUSSED

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[Article by Guo Shuqing [6753 2885 3237]: "On Methodology Concerning the Overall Reform of the Economic Structure"]

[Text] In order to reform our economic structure, we must make prudent and sufficient theoretical preparations, of which the research into the methodology of all-round economic reform is an important part which cannot be neglected.

Reform and Economic Growth

The direct goal of our economic structural reform is to radically promote the growth of our national economy. But the essential consistency between reform and growth does not exclude inconsistency between them under certain conditions. From a long-term point of view, reform and economic growth promote each other and are of the same orientation; but from a short-term point of view, they check each other and may sometimes be in conflict. If we fail to see the former aspect, we will fail to understand the fundamental significance of reform for our economic growth; on the other hand, if we fail to see the latter aspect, we will overlook the possible negative impact of reform on our economic growth. Under the current circumstances, it is precisely the latter aspect that is particularly worth our paying attention to.

The emergence of contradictions between reform and growth is determined by their respective characteristics. For reform to radically transform the old system and restore the flexible and effective functioning of the market mechanism, it is necessary to eliminate the longstanding imbalance in which total demand exceeds total supply, to make a new readjustment of the various economic relations, and to thus reduce the negative impact of this imbalance as much as possible. For this, we must allocate a certain part of our current financial revenue to build up a reserve or an insurance fund. Moreover, during the process of substituting the new system for the old one, it is necessary to allow a period of time for the various kinds of organizations to recoordinate and become adapted to one another. It is impossible for an all-round reform to score quick achievements like the rural reform, in which "wonderful consequences emerged as soon as the contract responsibility system was implemented." Therefore, in drawing up our development plans, we should have sufficient leeway. As for growth rate, when we have not yet transformed

or are transforming our system, the pattern and way to achieve economic growth continues to be development by extension. At that time, too fast a pace will give rise to new one-sided development and thus cause a repetition of the previous vicious circle of "making rash progress for 2 years and then readjustment for 3 years." In order to maintain a high speed, it is certainly necessary to preserve the principles of production and distribution under mandatory plans and this is certainly unable to create the economic environment for a rough balance between total supply and demand. An excessively large scale of capital construction will continuously push up the rate of accumulation, make it impossible for us to reduce our financial deficits, cause the volume of currency issued to continue to increase, and thus not only make it impossible for us to raise funds for our reform but also tend to cause inflation, which is the greatest danger to be feared in our country's reform.

The reform has already been clearly defined as the key task for our country at present. This means that the arrangement of and control over our economic growth rate should be subordinate to the reform. The question of whether we are actually able to ensure the fulfillment of this key task is determined by whether we are able to reduce the excessive scale of capital construction and raise the economic results of our investment. In fact, a zero or negative growth rate in our economy will impede the success of our reform from another angle. During the period of reform, it is also entirely necessary for us to tap fully our production potential and to maintain a proper growth rate. In short, what we need to do is prevent total stagnation of our economy as well as appropriately tightening our planning targets and development policies.

#### Thoroughness and Development by Stages of Our Reform

In order to eliminate the diverse defects caused by the old economic system, the reform must be thorough. Any attempt to repair and revise or to preserve certain parts of the old system will in fact destroy the reform. But what we mean by the thoroughness of reform is that the goal of our reform must be thorough, not that we should solve all problems at one stroke. It is impossible to change entirely, at one stroke, the old system that has taken shape and developed over a long time and to eliminate its negative consequences. We should define the key links in our reform and there should be different key links for different periods. Thus, in the continuous process of reform, there will be one development stage after another.

There should and can be a unity between thoroughness and the stage-by-stage manner of the reform. The key to the problem is how to clearly define the steps of reform in light of a scientific objective pattern, in other words, how to decide the order of priority. We should make a deep analysis of the internal relationships in our economic structure and first grasp the most basic economic relationships (such as planning, prices, taxation, distribution of materials, and so on), and then we will extend in depth to other areas and links. If we disregard the order of priority, and reverse the order of economic relations, we will not be able to attain the goal of reform. For example, under current conditions, if we first decontrol circulation, we will make it impossible to avoid the phenomenon of exploiting the disparity between



listed prices and negotiated prices to resell goods at excessive profits. Therefore, we must not fail to carry out reform in the spheres possessing with the necessary conditions, but we also must not force reform in the spheres that do not possess the necessary conditions.

It is true, moreover, that thoroughness differs from, and is opposed to, the stage-by-stage manner of our reform. At a particular stage, the sectors where the reform has not deepened for the time being will fail to match those where the reform has been relatively deep. However, as long as we adopt various kinds of preventive measures and persist in the continuity of our reform, the further development of the reform will radically change this situation. In short, thoroughness and the manner of progress by stages are inseparable. Without a goal for thoroughness, there will be no scientific basis for the division into stages; while without continuity between these stages, it will be difficult for us to maintain the normal operation of our economy and we will fail to finally realize the goal of thoroughness.

### The Whole and the Parts

The whole economic system is formed by various closely linked parts. There are at least three parts if divided according to their significance: the functional system, the regional system, and the trade system. No matter what the part, it must be subordinate to the whole. A part cannot exist if it is divorced from the whole. In order to carry out a thorough reform, we must adhere to the basic principles of the theory of integration or systems theory. The requirement for integration does not contradict the stage-by-stage and systematic manner of the reform. By upholding carrying out the reform in a stage-by-stage manner, we mean that in each stage, there is a specific key link, but we do not mean that there is isolated activity in one or several spheres in each stage. In order to achieve the general goal of the reform and in order to actually guarantee the realization of our aims in the key links, in every stage we should have all-round reform measures. The only difference between them is that with each stage the depth of reform varies for different spheres and links. Even the readjustment that is carried out in particular spheres purely in order to correspondingly suit the reform in the key links is, in fact, also a part of the reform. For example, in carrying out the reform centered on our organization of prices, we must reform our planning, taxation, and materials distribution systems and, at the same time, we must make big or small changes to our profit distribution, wage, credit, and foreign exchange systems. If we do not do that, it will be impossible for us to achieve the reform in our organization of prices itself or to realize the reform in our whole economic system. For an integrated organization of prices contains the setting of prices, the price mix, price structure, price system, readjustment of general price levels, the planning of and supervision of prices, and so on, while it also contains, in fact, to differing degrees, reform of the systems of taxation, profits, and planning. A basic characteristic of this category of parts is that from the point of view of the scope of their existence and activities, they are identical to the entire system. In this sense, a part can be regarded as identical to the whole.



Not only because the old system is highly centralized in nature, but also because commodity economy itself demands a unified market, the reform must be unified throughout our country (except for our special economic zones). In carrying out all-round reform, we must maintain a high degree of centralized leadership. The practice of popularizing the experience gained in some areas throughout the country has great limitations. True, as constituent parts of the whole economic system, the economic systems in our various areas have many things in common, but the conditions for the existence of various local economic systems differ even more. Therefore, we should not adopt the simple approach of drawing inferences for the whole from the parts.

The successful experiences in our agricultural structural reform are undoubtedly significant in offering us something to refer to, but we should not simply copy these experiences. As the two are very different from each other in their methodology, in our all-round reform, we must have a general plan for unified action, while in our rural reform, there is no need for arbitrarily seeking uniformity.

#### Relaxing or Tightening Control

We often say that the reform is aimed at enlivening our economy. Here the word "enliven" has a specific meaning. An outstanding characteristic of the old system is the rigid centralization of our economy by our highly centralized government administration. The reform is precisely aimed at breaking with this previous situation, granting our economic organizations decision-making power over their own operation, and thus enabling them to adapt flexibly to changes in social demand. However, "relaxation" and "tightening" are two opposites in unity and neither of them can exist in isolation from the other. There cannot be relaxation without tightening nor tightening without relaxation. True, we should relax our control in many spheres, but we also need to continue to tighten control in many other spheres. For example, after an enterprise has become relatively independent in conducting its operation, its responsibilities and tasks should be rigidly defined, and the state's economic policies and laws should be even stricter. In addition, during the process of reform, there should be another kind of tightening in a transitional sense. This means that at various stages of development, in order to ensure the reform in the key sphere, we should adopt special measures in other spheres. For example, as there is a "hunger for investment," financial deficits, a sharp increase in the rate of bank deposits, and failure to control the amount of bonus payments, the price reform that is carried out under such conditions cannot dispense with the methods of imposing strict controls over wages, bonuses, credit, and the volume of currency issuance. From the point of view of our long-term goal, these methods do not appear to be rational, and may be precisely what we need to reform, but from a short-term point of view, they are necessary, because without them it is impossible for us to achieve our long-term goal.

Our reform should be a simultaneous process of relaxation and tightening. Some comrades often only stress the relaxation and overlook the need for tightening. We should be on our guard against this tendency.

As long as we make efforts, we will certainly be able to carry through our all-round reform, but certain partial and temporary failures are also unavoidable. This is because in the large-scale practice of our all-round reform, it is impossible for us to be very clear of each and every trivial link of the reform beforehand, and there are always things we cannot foresee and therefore cannot make satisfactory arrangements for. However, we need not make a fuss about the mistakes in minor links; for problems of this sort are easy to solve as long as we adopt appropriate measures.

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ECONOMIC MANAGEMENT

GUANGMING RIBAO ON ECONOMIC LEVERS, PLANNED REGULATION

HK060439 Beijing GUANGMING RIBAO in Chinese 27 Apr 85 p 3

[Article by Liu Rongcang [0491 3310 3318]: "The Use of Economic Levers Is Part of Planned Regulation"]

[Text] There is relatively heated controversy in economic circles about whether the application of economic levers falls, after all, within the scope of planned regulation or market regulation. Some comrades hold that the former is true and others consider that the latter is true. Still others think that it involves unity between planned regulation and market regulation, or between planning mechanism and market mechanism.

In my opinion, given socialist planned economy or planned commodity economy, the application of economic levers falls within the scope of planned regulation.

First, socialist economy is a planned commodity economy. The market involved in this commodity economy is also a socialist unified market guided by plans. The influence and regulating role of relevant economic levers act on socialist planned commodity economy as a whole and on the unified socialist market. Economic levers therefore represent an important means of regulating socialist economy in a planned manner. One of the main purposes in applying economic levers is to avoid the blindness that comes with the comprehensive development of socialist commodity economy and to rely on material interests as a "fulcrum" with different fields and different forms involved, to guide it onto the path of development of a planned commodity economy, so that the national economy can on the whole develop in a proportionate and harmonious manner. Setting store by the role of market mechanism also precisely means effectively guiding, through the market acting as a mirror, the organic combination and linkup between production and consumption and between production and circulation to realize the planned and proportionate development of the national economy on the basis of production being geared to market needs.

Those sectors and areas falling within the scope of market regulation and those production and operating activities conducted through such economic systems as collective economy, cooperative economy, individual economy, and so forth also must and can be regulated, influenced, and guided purposefully through the role of pricing, taxation, credit, interest, and other

economic levers to meet social needs and the demands of planned economy. This is because in socialist planned commodity economy as a whole, production and operating activities entirely regulated by the market as part of this whole must inevitably be influenced, to different degrees, by planned regulation, planned management, and conscious application of the law of value. For example, the scope and degree of market regulation are themselves defined in a planned manner. The main raw and other materials and energy and communications conditions required for relevant production and operating activities and their share of total social needs must also be reflected and arranged in the overall plan for the national economy. Fluctuations in their prices are also directly or indirectly related to the planned prices of certain means of production and leading commodities and changes in their prices.

Second, the application of economic levers must be based on the state as the main body. The main purpose is to give full play to the state's economic role and to regulate the socialist economy in a planned manner. The main body involved in the application of economic levers and their macrotargets and macrogoals in asserting their regulating role and influence dictates the application of economic levers falling only within the scope of planned regulation. In the system of economic levers, taxation, credit, interest, and other economic levers are naturally means of planned regulation. Because of what separates them from concrete producing and operating units and commodity producers, tax rates, changes in interest rates, and the direction of the use of credit funds and their amount cannot and also should not be determined by various producers and operators. Even in the case of the pricing lever, though the initial price of a product is often decided with the participation of the direct producer, who also has the power to revise it within given limits, the direction and range of its fluctuation are fundamentally determined by the state. Thus, the aim of regulating in a planned manner the distribution of social labor, the mix of products, and the relation between supply and demand is achieved. As to the lever of wages and bonuses, of course the principle of distribution according to work and its demands must be realized. On the other hand, this is also an important means of regulation, with the state controlling the growth of social consumption funds in a planned manner and maintaining a rational balance between accumulation and consumption.

Third, viewed in light of the fundamental contents and demands of socialist economic plans and the reform program for the planning system, the socialist planned commodity economy is a unified whole. Despite different forms of planning, mandatory or guiding plans and the sectors completely regulated by the market are components of the planned economy as a whole and differ only in the methods of planned guidance and planned management. The regulating role of economic levers and their influence do not act just on economic development within the scope of mandatory and guiding plans. They also represent important means of regulating in a planned manner the production and operating activities in the sectors regulated by the market. Major sectors requiring control, and proper control, or minor sectors needing to be liberalized and enlivened, undoubtedly all are included in economic plans and the contents of the planning system, and are inseparable from the

application of economic levers in realizing effective planned regulation and producing planned effects. It should be made clear that in reforming the planning system, to properly narrow the scope of mandatory plans in a systematic manner and to properly enlarge the scope of guiding plans and of market regulation does not mean doing away with or weakening the planned nature of socialist planned economy. Rather, this is making full use of economic levers and economic means to strengthen the scientific nature, effectiveness, and flexibility of plans and improve the systems and methods of planning.

Of course, by saying that the application of economic levers falls within the scope of planned regulation, we do not mean that this planned regulation is incompatible with and unrelated to market regulation and the market mechanism. We only mean that the application of economic levers gives expression to the demands of socialist planned economy or planned commodity economy, and that economic levers are used to carry out planned regulation, in order to realize the aim of planned development of the national economy and socialist commodity economy. Moreover, their application is often related to the role of market mechanism and the law of value. The mechanism of market regulation is also ultimately included in and synonymous with the aims calling for planned regulation and an overall balance in the national economy and their demands.

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JOURNAL ON FUNDAMENTAL REFORM OF WAGE SYSTEMS

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[Article by Zuo Mu [0146 3668]: "Present Wage Systems Must Undergo Fundamental Reform"--edited by Liu Qichang [0491 0366 2490]]

[Text] At present there are about 100 million workers in the organs, enterprises, and institutions who are getting their remuneration in wages. To reform the present wage systems and to set up a more reasonable distribution system will help enhance the sense of responsibility of millions of workers and give full play to their initiative and creativity. To reform the wage systems is one of the major programs of the reform of our entire economic system which focuses on cities. A success in the reform will surely contribute to the great development of our social productivity and have a great bearing on our four modernizations.

I would like to air some of my personal views on the direction of the reform of wage systems and its related theoretical problems.

I. The Drawbacks of the Present Wage Systems and the Demands for Reform

Our existing wage systems were formulated in the early 1950's and were later supplemented and amended by many provisional regulations, notices, and provisions. As the wage systems were transplanted from foreign ones and they have inherited the supply system practiced in our revolutionary base during the revolutionary wars and they have been stamped with a "leftist" brand through the promulgations of various supplementary provisions, many serious drawbacks have been revealed through practice. One of the major drawbacks is that the wage systems have been too centralized and have been unified too rigidly. The forms of wages, the wage standards, the criteria and time for promotions, and even the awarding of bonuses and allowances in various trades and professions have been indiscriminately fixed by the state. Millions of workers are promoted in accordance with their seniority and years of service. Basically, the localities and the enterprises concerned do not have the authority to determine the wages of their workers. Another major drawback is the egalitarianism which has given rise to the phenomenon that the enterprises are "eating from the same big pot" of the state while the workers are "eating from the same big pot" of their enterprises. The above two drawbacks have gone against the principle of to each according to his work and have seriously

undermined the enthusiasm and creativity of the enterprises and their workers. Furthermore, these drawbacks, especially the wage systems being too centralized and too rigidly unified, also produce decisive effects.

Various localities have experimented with the reform of the wage systems while reforming the economic system in the past 2 years. A common way is to let part or all of the wages float together with the bonuses while the original total amount of the wage fund remains unchanged. The responsibility contract systems, contract systems with payment linked to output, and contract systems with payment linked to profits have been introduced. Some enterprises have even carried out the system of internal floating promotions. Since they are combined with the implementation of the economic responsibility system, such experiments have achieved relatively good results. They are, however, only minor reforms which can be carried out under the existing wage systems. We have to initiate a fundamental reform of the existing wage systems if the principle of to each according to his work is to be strictly implemented.

The wage systems which have been too centralized and too rigidly unified are, like our entire economic system, fossilized. We have to transfer the power of wage management to a lower level if we want to initiate a fundamental reform of the old wage systems so that wages can be linked to the enterprises' operational results and the labor contributed by the workers, and so that the characteristics of a trade and geographical differences can be reflected by the wage level. Only through this can we adhere strictly to the principle of "to each according to his work" and totally get rid of egalitarianism.

## II. Enterprises Should Become Relatively Independent Distribution Units

The key to modifying the highly centralized wage management systems is to transfer the power of wage management to the enterprises.

The decision on the reform of the economic structure of the 3d Plenary Session of the 12th CPC Central Committee pointed out that the enterprises should become relatively independent economic entities, autonomous manufacturers and operators of socialist commodities, and assume responsibility for profits and losses. The decision also pointed out a path for the reform of the wage systems. We should proceed from the objective reality that the socialist economy is a planned commodity economy and take new steps to improve our knowledge and practices in regard to wages.

As is well known, wages are part of production costs in terms of the commodity value. Wages are represented by "v," whereas the value of the means of production is represented by "c." Another part is supplementary amounts on top of the cost, namely the surplus product value, which is represented by "m." The value of the means of production (c) consumed and the value created by labor (v plus m) during the process of production by an enterprise engaged in material production only constitute the individual value of a commodity. We must bear in mind that commodities are sold in accordance with their social value, i.e., average value. Any consumption which exceeds the average level can gain no social recognition, nor can the commodity value

be realized. The total amount of remuneration payable by an enterprise to its workers for their labor should be linked to its economic results. The total amount of wages of an enterprise is determined by its operational results, provided other conditions remain unchanged. If the enterprise suffers any operational loss because of certain subjective reasons, the workers' labor consumption and the material consumption will not be compensated. The remuneration for the workers' labor will go down. On the other hand, if the enterprise achieves good economic results, it will be able to give its workers higher remuneration. In this case, the state should have no reason to impose any ceiling on it. In the past, we did not treat enterprises as relatively independent economic entities, nor did we take the relationships among enterprises as an exchange of equal value. An enterprise would get the standard wages for its workers if it had achieved the production goals set by the higher authorities. Wages would be given to its workers even if the goods produced were unsalable and stockpiled. Consequently, many enterprises only paid attention to achieving the production goals, taking no heed of their operational results. It is therefore necessary that in our future reforms the relationship between the remuneration for the workers' labor and the enterprises' operational results should be determined by the enterprises' operational results.

Let us look at the wages which originate from the new value created by the enterprises ( $v$  plus  $m$ ). We should have a correct idea of the relationship between the wages and the state finances. In a commodity economy, the distribution of the operational revenue of an enterprise engaged in material production is the primary distribution of the national income. The enterprise turns over part of its profits to the state by paying taxes to the finance department. The distribution by the state for the workers in the administrative units and institutions and the distribution through service charges are a redistribution of the national income. In the primary distribution of the national income which is carried out by the enterprises, the relationship between wages and the state is that if wages go up, the national revenue will go down, provided other conditions remain unchanged, and vice versa. The wage fund of an enterprise as well as the state revenue originate from the new value the enterprise creates and the national income; that is to say, the wage level affects the state revenue. It cannot be said that an enterprise's wage fund originates from the state revenue. The wages of the workers are not distributed by the state, nor are they distributed by the state to the workers through the enterprises concerned. They are in fact, directly distributed by the enterprises concerned. In the past, the revenue and expenditure of all people's enterprises were entirely controlled by the state. The revenue and expenditure of many collective enterprises were also controlled by the localities concerned. As a result, we put the cart before the horse in regard to our understanding of wages. The wages of the workers in the enterprises should be the primary distribution of the national income which is carried out by the enterprises. However, as the revenue and expenditure of the enterprises are controlled by the state or the localities concerned, wages are regarded as an expenditure of the state or the localities concerned. It seemed that the distribution is carried out by the state for the enterprises and their workers. Consequently, wages are not determined by the enterprises' operational conditions but by the state revenue and



expenditure. If we want to overcome the egalitarianism which has appeared in the distribution of wages, we should change the situation in which the enterprises' wages are controlled by the state and the present condition under which the wages are directly determined by the state.

The "decision" also pointed out that the ownership and the operational authority of an enterprise can be properly separated. Such a provision has met the demands of a commodity economy. The policies on workers' wages should be under the jurisdiction of the management. From this we can say that the collective enterprises and the people's enterprises, as economic entities which have their own independent accounting systems and which assume responsibility for their own profits and losses, should also become relatively independent distribution units.

A socialist state should, of course, maintain an effective degree of guidance, regulation, and supervision over the economic activities (including wage policies) of the enterprises. While stressing that the enterprises should be relatively independent distribution units, we do not deny the state departments' intervention in the primary distribution carried out by the enterprises. By stressing that the enterprises are "relatively" independent distribution units, we ensure that the state plays a guiding role in the enterprises' distribution. The reasons are: 1) To safeguard a proportionate development of the entire national economy and to avoid blind enthusiasm and spontaneity. The microeconomic policies of the enterprises should be subservient to the overall interests of the national economy and to the comprehensive balance of the macroeconomy. 2) A large portion of the extra profits or differential profits gained by the enterprises which enjoy certain privileges or favorable conditions given by the state should be turned over to the state. The enterprises should not do what they like and distribute all the profits they make. 3) As the price structure has not yet been reformed, the real operational level of the enterprises cannot be fully reflected by their economic results. Under such circumstances, it is necessary for government departments to guide, regulate, and supervise the enterprises' distribution. The existing regulatory tax and the above-quota bonus tax are examples of the regulatory measures. Other measures may also be considered.

### III. Seriously Improve the Implementation of the Principle of to Each According to His Work

An enterprise should determine itself the form of remuneration and the promotion criteria in accordance with the policies and guiding principles of the state. What should it take into account while formulating the wage policy?

1. It should adhere to the principle of to each according to his work. First of all, the idea of to each according to his work has certain limits. To define the limits of the idea of to each according to his work has a great bearing on the reform of the wage systems.

According to Karl Marx, to each according to his work means that a worker should get an amount of remuneration commensurate with his labor. At the present socialist stage, should the idea of to each according to his work be

put into effect within the socialist limits or should it be implemented within the enterprises? In the past, the idea of to each according to his work was implemented mainly within the collective enterprise, not within the people's enterprises whose revenue and expenditure were controlled by the state. The wage range of these types of enterprises was generally the same, only there were some bonus differences among enterprises.

As the 3d Plenary Session of the 12th CPC Central Committee has stated clearly that enterprises should become relatively independent economic entities, exchanges of equal value among enterprises should be implemented. Internally, the enterprises should stick to exchanges of equal labor. As is known, in the case of exchanges of equal value, the so-called equal value is only an average value. More often than not, it is not an equal value. If we want to seriously adhere to the principle of to each according to his work we should pay a worker remuneration commensurate with his labor. It is therefore necessary to link this principle to the implementation of the economic responsibility system, to widen the wage gap among the workers within an enterprise, and to introduce various wage scales. For instance, a furnaceman in a steel plant was originally a grade six worker. He would get the wages of a grade six worker as long as he was a furnaceman. However, in at least the past decade, many furnacemen have been improving their skills and they have come to hold very responsible posts, yet their wages remain the same as those of workers of other trades who enjoy the same seniority. Those who have worked more do not get more. Under the reformed wage systems, only those who have attained a required level of skill can take up a post. The wages should be commensurate with the post. Workers should get equal pay for equal work regardless of their seniority. More attractive remuneration should be given to technologists and other mental laborers if we want to improve the situation in which the pay for mental laborers is on the low side. Those who have made outstanding contributions should be greatly awarded.

There are many trades and professions whose amount of labor cannot be directly assessed by the hours worked but should be assessed by the results of labor. In that case we should link the profit tax to the assessment of the remuneration. If we want to adhere to the principle of "to each according to his work," we should have a clear picture of the objective differences in the production conditions of various trades and professions before linking the results of labor or the economic results to the calculation of remuneration. As far as piece-rate remuneration and the system of wages based on position are concerned, the existing wage scale should be changed and expanded so that it will match the cultural and technological level, responsibility, and job nature and requirements of the workers. The wage differences among various grades should not be the same. Nor should it be a case of the higher the wage step, the greater the wage difference. As far as the workers of enterprises are concerned, it is more reasonable to have a wage scale in which the wage difference in the lower part and the upper part of the scale is less than that in the middle part. Under such a scale, workers who have reached middle age will soon get higher wages. To be more specific, younger workers have a smaller difference in wages. However, the starting point should be higher than the existing level. Workers who are middle aged are energetic and strong, with more mature skills and richer work experience. They are the

backbone of their profession and they make relatively greater contributions to the country. Furthermore, they have to take care of their families. The cost for reproduction of the labor force is relatively greater. The wage difference in the middle of the scale should therefore be greater. Those who have reached old age are weak, but because of their rich work experience they still play an important role in production. Their wages should therefore be slightly higher.

The above idea of wage differences takes into account the differences in the workers' skills at different periods, their contributions, the actual cost of living, and their physical fitness. The idea really helps to implement the principle of to each according to his work.

2. The wage policy should take into account the idea of increasing the proportion of wages and reducing the proportion of bonuses in the workers' remuneration.

Since the existing wage systems are too centralized, it is not easy for workers to be promoted. The basic wages are very low. Bonuses are given out to the workers from the profits retained by the enterprises. When the bonuses which the enterprises give out have exceeded the limit, extra bonuses in kind will be given out. Price allowances which are approved by the state are also given out. The remuneration structure has thus become irrational and the fact that the wages (which come from the production cost) are on the low side while bonuses (which come from the profits) are on the high side has many drawbacks.

During the reform of the wage systems, in order to expand the wage gap, it is necessary for us to transfer a considerable portion of bonuses to wages when the time is ripe. The state can control the enterprises' wage increases by means of the tax lever (for instance, the imposition of a wage tax). The transfer of a considerable portion of price allowances and bonuses to wages will raise the cost level while lowering the profit level. However, the price of commodities will not be pushed up. Such a transfer will only change the proportion between "v" and "m." We have no reason to raise the price, since the commodity value does not go up. All enterprises should increase their profits by improving their economic results. They should never raise the price to increase their profits.

In drawing up a wage reform program, the enterprises should give due consideration to the distinguishing features of their trades. The size of the enterprises, the distinguishing conditions of different workshops and the nature of different jobs, the forms of wages, the wage standards, and the promotion criteria should be flexible and diverse. For instance, since the degree of automation in the textile and steel industries is quite high, it is appropriate for us to carry out a system of wages based on position for workers engaged in continuous production and for manual heavy laborers. It is more appropriate for us to adopt wage-by-grade system for technical staff, administrative staff, and certain types of work which are technically complicated. For workers engaged in simple and light work (e.g., reception and dispatch workers and storemen), a system based on position plus seniority is more suitable.

#### IV. The Pay for the Staff of Government Organs, Administrative Departments, and Institutions

At present, the pay trend for the staff of government organs, administrative departments, and institutions is similar to that of the workers of enterprises, as pay does not match job responsibility and performance. It is therefore necessary for us to reform this pay system.

After several years of discussion, we are inclined to believe that we should move toward a structural pay system if we want to reform their pay system. Furthermore, prominence should be given to the nature of the job. The remuneration for such staff may be roughly divided into three or four major parts, including the pay for the job, the pay for seniority, and the basic cost of living. Appropriate bonuses may be retained by general staff or workers. The wage differences among workers in various jobs should be appropriately widened. The differences in the basic cost of living and that in the pay for seniority should no longer be retained.

The pay for the staff of government organs, intellectuals, and workers engaged in cultural, educational, and technological activities should be centralized and determined by the central government. No locality should adopt another pay structure for such workers simply because they are different from workers in the enterprises. (Institutions which have changed to profit-making enterprises are exceptions. All profit-making economic units which are economic entities and which have independent accounting systems and assume responsibility for their own profits and losses should have a pay structure similar to an enterprise.) The pay structure and the promotion criteria for administrative departments and institutions which do not assume responsibility for their own profits and losses should be determined by the government, which is the source of their wage fund. Organs at all levels should put into effect the pay structure and the promotion criteria determined by the state.

In the past, the government departments concerned had the authority to determine the workers' pay. It is no time for the administrative departments and institutions to change this situation. For instance, the central government should determine the pay system and structure of state organs, provincial or municipal units, units of autonomous regions, and major institutions of cities and localities which are administered by a province. The authority to determine the pay of workers in grassroots units and minor institutions should be transferred to the localities concerned so that the pay system can reflect the distinct features of various localities and the difference in the quality of the cadres. The way to move to a new wage step should be more flexible. For example, when a cadre's job nature has changed, his leading unit should have the authority to readjust his pay in accordance with the unified pay standard set by the state. He does not have to wait for the national step increase.

The reform of the wage systems aims to give full play to the enthusiasm of the enterprises and the workers, and to give impetus to our socialist modernization. The development of our economy and the enhancement of our economic results are both the starting point of the reform of the wage systems and the key to its success.

FINANCE AND BANKING

MEETING ON COMMODITY PRICE CONTROL ENDS

OW080034 Beijing XINHUA Domestic Service in Chinese 1246 GMT 6 May 85

[Text] Changsha, 6 May (XINHUA)--The national meeting of heads of commodity price control bureaus concluded recently in Changsha. The meeting set the strict prohibition of illegal price hikes and disguised price hikes of the state-set prices of industrial and agricultural products as the current focus of commodity price supervision and control.

This meeting set the following tasks for this year's work on national commodity price supervision and control:

Seriously implement the "State Council's Circular on Strengthening the Management, Supervision, and Control of Commodity Prices"; and, together with carrying out of plans on commodity price reform, proceed with supervision and control work in a timely manner. We should resolutely control well the state-set prices of industrial and agricultural products, especially prices of major materials for industrial production and prices of durable consumer goods that are in short supply. Control and guidance should be stepped up on materials for industrial production, which the enterprises are allowed to sell freely. We should allow commodities whose prices are set by the enterprises and market-regulated agricultural sideline products to invigorate. We must resolutely deal with evil tendencies in order to protect the interests of the state and the consumers. We must resolutely punish and not appease with those who, taking advantage of the reform, are engaged in the practice of random price hikes, increasing prices in disguised form, charging fees randomly, or reselling goods at added profits.

Strengthen and develop voluntary neighborhood and labor organizations to control and supervise prices. We should build a mixed control and supervision network of professionals and the masses. We should bring into play the role of consumers' associations, professional associations, and workers' associations on price control and supervision. We should actively unfurl the "We believe in prices" campaign. We should strengthen legal construction and improve the system and regulations of commodity price control and supervision. We should correctly implement policy and enforce commodity price discipline. We should seriously handle and wind up cases that involve violation of commodity price discipline. We should trace the responsibility and deal sternly with those who have given shelter or cover or turned a blind eye to persons and behaviors that violate the discipline and the state law. Those persons who expose cases of discipline violation should be commended and rewarded.

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FINANCE AND BANKING

PRC SOURCES SAY BEIJING TO EASE PRICE CONTROLS

HK080730 Hong Kong AFP in English 0700 GMT 8 May 85

[Report by Michele Houx]

[Excerpts] Peking, May 8 (AFP)--City officials will relax state controls on meat, fish, egg and dairy-product prices here in a major move that may sharply drive up local food bills, informed Chinese sources said today.

The move, which is to take effect Friday, will be accompanied by a monthly 7.30 yuan (2.52 dollar) cost of living allowance for all of the capital's 9.45 million people, the sources said.

But they added the bonus would not compensate for the jump in food costs expected as a result of the move to allow prices to float within limits that vary widely according to the item.

The sources said that the average maximum increase allowed would be 36 per cent, but the price of beef could be more than doubled and that for fish could be nearly quadrupled.

The state fixes prices for 65-70 per cent of the goods produced in China, including foods, industrial equipment, consumer items such as cotton, oils and cloth, raw materials, energy and transport.

Economic analysts said the latest decision, which has yet to be announced officially, was part of an effort by Chinese authorities to liberalise gradually what they consider to be "irrational" prices and allow market forces more play.

Western experts said the move was an intermediary step to allow increases in artificially low state prices while putting off the question of reform of rigid salary scales, which Beijing has also promised to study.

But it was not yet known how the new system--which would narrow the gap between state prices and those for the same products in the now permitted free markets--would work across the counter.

The sources said that the decision would allow a pound (450 grams) of lean pork, which is currently set at 1.46 yuan (about 50 cents), to be sold for as much as 2.50 yuan (86 cents).

Beef, which is fixed by the state at one yuan (34 cents) a pound could be hiked as high as 2.3 yuan (79 cents), while fish could "float" from 0.45 yuan (16 cents) a pound up to 1.6 yuan (55 cents).

The sources said that the price of a dozen eggs would be allowed a smaller margin of increase, from 1.27 yuan (44 cents) to a maximum of 1.37 yuan (47 cents).

In contrast to the possible steep price increases, the sources said, the cost of living allowance decided by the authorities represented barely 10 per cent of the average monthly salary in China of 70 yuan (less than 25 dollars).

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WANG DAOHAN REVIEWS SHANGHAI'S FISCAL GAINS

OW250906 Beijing XINHUA in English 0841 GMT 25 Apr 85

[Text] Shanghai, April 25 (XINHUA)--Shanghai has become the first Chinese city to use the criteria of GDP (gross domestic product) statistics to measure its economic progress. The gross domestic product of the city amounted to 37.8 billion yuan in 1984, 9.8 percent more than in the preceding year, according to Mayor Wang Daohan.

Addressing the Third Session of the Eighth Municipal People's Congress Tuesday, he said that the national income of the city reached 33 billion yuan, an 8.8 percent growth.

Shanghai is China's leading industrial and business center. It is also a major information and financial center.

Major Wang said that Shanghai will make efforts to integrate the economy of the urban areas with that of the surrounding counties, to restructure the economy and form a rational economic system in the Shanghai economic region which includes four provinces and the city proper, a total of 517,000 sq km.

The Shanghai government also plans to cooperate with provinces along the Yangtze River, China's longest, in economic development, improve economic ties with other parts of the country and develop foreign economic relations, the mayor said.

Wang said that Shanghai intends to offer more trading, monetary, transport, posts and telecommunications, science, education, information and consultancy services to promote China's modernization drive.

CSO: 4020/204

MINERAL RESOURCES

SIGNIFICANCE OF IRRIDIUM PRESENCE EXAMINED

OW271442 Beijing XINHUA in English 0805 GMT 27 Apr 85

[Text] Beijing, April 27 (XINHUA)--The high content of irridium discovered in three strata of typical geological sections in China provides evidence for the bombardment of the earth by extra-terrestrial materials between 600 million and 65 million years ago, PEOPLE'S DAILY reported Friday. The three strata, located in Yunnan, Zhejiang and Sichuan Provinces and the Tibet Autonomous Region, were formed between the Pre-Cambrian and Cambrian periods (600 million years ago), between the Permian and Triassic periods (248 million years ago), and between the Cretaceous and Tertiary periods (65 million years ago), respectively.

A geological survey conducted over the past 2 years indicates that the content of irridium in the three boundary strata is several times that of the strata above and below.

Experts share the view that while irridium is a rare element in the earth's geological makeup, minor planets, comets and cosmic dust contain high percentages of the element, according to the paper. Scientists from five different institutes in Beijing hypothesize that the abnormally high content of irridium in the strata came about through the bombardment of the earth by showers of meteorites or minor planets, causing the extinction of many varieties of organisms. Their view supports an earlier one put forward by experts in the United States.

Supporting evidence shows that carbon isotopes in the strata are also abnormal.

The more than 50 places in other parts of the world where extra-high content of irridium has been discovered are in strata between the Cretaceous and Tertiary periods, the paper disclosed.

Chinese scientists have reported research findings such as this to international geological symposiums in the past 2 years.

CSO: 4020/204

MINERAL RESOURCES

BRIEFS

JILIN NONMETALLIC RESOURCES--Changchun, 13 Apr (XINHUA)--A large deposit of a raw material for making ceramics, wollastonite, has been found in Lishu County, western Jilin Province. Reserves are estimated at 10 million tons. This will make Jilin China's number one wollastonite producer, according to the provincial geological department. Wollastonite is widely used in the metallurgical, chemicals, paint and rubber industries. It is now exported to the Federal Republic of Germany, Japan, and the Netherlands. The province also has large deposits of other nonmetallic minerals, including diopside, gypsum and pumice. Reserves of ceysstite--a material used in sound proofing and thermal insulation and to filter petroleum and foodstuffs--are verified at 18 million tons. [Text] [Beijing XINHUA in English 0727 GMT 13 Apr 85 OW]

CSO: 4020/204

INDUSTRY

BRIEFS

ZHEJIANG FROZEN VEGETABLE PLANT--Hangzhou, 2 May (XINHUA)--A fast frozen vegetable plant, imported from Japan, has gone into operation in Cixi County, Zhejiang Province. The 4,608-cubic-meter cold storage plant can freeze a ton of vegetables an hour and has an 800-ton storage capacity. The building and equipment were imported by the Zhejiang branch of the China National Cereals, Oils and Foodstuffs Cooperation in a compensation trade deal. [Text] [Beijing XINHUA in English 0838 GMT 2 May 85 OW]

CSO: 4020/204

CONSTRUCTION

JPRS-CEA-85-051  
5 June 1985

BRIEFS

NORTHERN XINJIANG RAILWAY LINE--Urumqi, May 1 (XINHUA)--Work on a railway line connecting Urumqi, capital of the Xinjiang Uygur Autonomous Region, and Usu, a town on the southern fringe of the region's Junggar Basin, began today. The 246-km line will be completed in 1988 before being extended west to Alataw Pass on the Sino-Soviet border. Track laying is expected to be completed on the section from Urumqi to Changji by the end of this year, about one-third of the work. The railway is being jointly financed by the Ministry of Railways and the Xinjiang authorities. The new railway will not only help promote local development but will also become a major thoroughfare to middle Asia and Eastern Europe, local authorities said. [Text] [Beijing XINHUA in English 1853 GMT 1 May 85]

CSO: 4020/204

CONTINUED TIES BETWEEN SOUTHWEST, COAST URGED

OW260746 Beijing XINHUA in English 0717 GMT 26 Apr 85

[Text] Chongqing, 26 Apr (XINHUA)--China's open policy is throwing its weight behind cooperation between the economically less developed but resource-rich southwestern region and the industrialized coastal provinces and cities.

Participants in a regional conference here agreed that the southwestern region, including Sichuan, Guizhou and Yunnan Provinces, and the Guangxi Zhuang Autonomous Region, will have a much bigger role to play in the national economy so long as it speeds up exploration of indigenous resources and upgrades its industries in joint efforts with the seaboard areas.

Cooperation between the southwest and coastal areas was in part responsible for the 14.7 percent growth of the combined agricultural and industrial output value in 1984, as compared with the 13.6 percent increase of the national total, the participants said.

The 5-day conference, aimed at coordinating economic operations in southwest China, is the second annual meeting initiated by Communist Party General Secretary Hu Yaobang and Premier Zhao Ziyang following their visits there early last year.

Incomplete statistics show that the provinces of the region have signed nearly 900 cooperation projects among themselves and proposed 743 projects for cooperation with coastal areas and open cities since the first such meeting held in Guiyang, capital of Guizhou Province, in April 1984.

The region embraces an area of 1,367,000 sq km and has a population of more than 200 million. It has rich deposits of coal, iron, phosphorus, aluminum, lead, zinc, copper and tin. Its deposits of vanadium and titanium account for over 80 percent and 90 percent, respectively, of the nation's totals.

However, poor transportation and communication facilities, lack of information and low management skills have long been a hindrance to local economic growth.

Lu Dadong, a State Council official in charge of the industrial streamlining program for the inland provinces, said at the meeting that both technical transformation and closer cooperation with coastal areas were needed in order to accelerate economic development in the southwest.

Such cooperation, the ex-governor of Sichuan Province said, involved development of local resources and expansion of the mining and processing of metals, and the production of high-quality goods and key equipment urgently needed on the domestic market. Other areas needing a boost are labor service, farm and sideline products processing and the food industry.

China's coastal areas are much more developed economically and technically because of their easy access to advanced management and information. Yet they face problems of obtaining resources and energy.

"Extensive cooperation between coastal and inland areas will enable them to make up for each other's deficiencies and achieve common progress," observed Yu Hanqing, mayor of Chongqing.

Wang Guangying, vice-chairman of the National Committee of the Chinese People's Political Consultative Conference and chairman of the China Everbright Industrial Company based in Hong Kong, proposed that advanced experience from the U.S. and Japan be applied to improving navigation on the Yangtze so as to solve the transport problem.

CSO: 4020/209



DOMESTIC TRADE

JILIN LEARNS FROM GUANGDONG, JIANGSU EXPERIENCES

County Promotes Commodity Economy

Changchun JILIN RIBAO in Chinese 28 Jan 85 p 2

[Article by Tai Yuanhe [3141 0337 3109], secretary of the Dunhua County CPC Committee: "Accelerate the Development of Commodity Economy"]

[Text] Recently Dunhua County CPC committee conscientiously studied the advanced experiences of Guangdong and Jiangsu provinces and found out where we lagged behind. In view of the characteristics of Dunhua County, we are determined to work on the following tasks:

1. We should continue to eliminate the influence of "leftist" ideas, free ourselves from the restriction of "taking grain as the key link" and develop rural economy in an all-around way. We should educate the masses of cadres to break away from the restrictions imposed on them by the ideas of conventional agricultural production and self-sufficient natural economy and foster the lofty ideal of socialist large-scale agricultural production. We should broaden our horizon from expanding "10 percent of farmland" to developing and utilizing all natural resources, and like Guangdong and Jiangsu, make the "10 wheels" of agriculture, forestry, animal husbandry, sideline production, fishery, industry, commerce, building industry, transportation and service trade roll simultaneously to accelerate the conversion of the county's agricultural production to large-scale commodity production.
2. We should resolutely readjust the industrial lineup of rural areas. Proceeding from the reality of rural areas in our county, we should increase grain output steadily by reducing grain acreage and practicing intensive farming to increase per-unit yield, increase the acreage of cash crops to over 150,000 mu, plant a large acreage to flax, "three melons" (watermelons, pumpkins and muskmelons) and "three spices" (green onions, garlic and hot peppers) and plant a proper acreage to sunflowers. Great efforts should be made to develop forestry and animal husbandry, do a good job in closing mountains to grow forests, and grow trees in barren hills, on village roads and around houses. We should vigorously engage in the "breeding of 10 animals and poultry" (pigs, cows, sheep, chickens, ducks, geese, rabbits, bees, silkworms, and deer). Stressing the breeding industry is of great significance to solving the problem of grain conversion. Our county has more than 54,000 peasant households. If we have 40 percent of them raise five pigs and 25 percent raise 50 Kang-bei-er [1660 6296 1422] ducks, we can make 50 million yuan a year.

3. We should vigorously develop township (town) and village enterprises, industry, commerce, transportation, building industry and service trade and pay special attention to using the development of specialized major households as a breakthrough in developing a commodity economy. This year the output value of township (town) and village enterprises should be 30 percent higher than last year. Our county should focus on 100 village-run enterprises whose output value is 100,000 yuan and 2,000 major households whose output value is 10,000 yuan, and strive to make forestry, animal husbandry, sideline, fishery and industrial output value account for 50 percent of the total agricultural output value. All party, government and economic departments should correct their ideology, give vigorous financial, technological and material support to the development of township (town) and village enterprises and specialized major households, accelerate formation of new integrated bodies and raise the level of the commodity production.

4. We should raise the level of leadership and strengthen concrete guidance. County, township and village leading cadres should further adapt to the new situation in the development of commodity economy, conscientiously absorb updated knowledge and put into practice while readjusting the industrial lineup of rural areas and learn how to use the law of value and how to use the concept of commodity economy to organize economic work so as to make greater contributions to fulfilling the task of doubling the output value of our county ahead of time.

#### County Readjusts Industrial Lineup

Changchun JILIN RIBAO in Chinese 28 Jan 85 p 2

[Article by Jin Shouxi [6855 1343 0823], secretary of the Yongji County CPC Committee: "Readjust Industrial Lineup and Seek 'External Assistance and Internal Cooperation' To Catch Up With Guangdong and Jiangsu"]

[Text] This sightseeing and study tour of Guangdong and Jiangsu provinces has opened our eyes and increased our confidence. To hasten the steps of our county in restructuring industrial lineup by drawing on the experiences of Guangdong and Jiangsu provinces, we think we need to focus on the following five issues:

1. Further correct guiding ideology, conscientiously implement the principle of focusing all work on economic development and focusing economic work on its results and mobilize all party members to pay attention to economic work. From now on, success and failure in the work of a county or township will be judged mainly by how much its total social output and economic results have been increased.

2. Clarify the orientation of development and find a new way of revitalizing the economy. We should make sure that the three sides of the state, collectives and individuals make concerted efforts, the "six wheels" of counties, townships (towns), villages (neighborhoods), communes, integrated units and households roll at the same time and the 10 industries of agriculture, forestry, animal husbandry, sideline production, fishery, industry, commerce, building industry, transportation and service trades develop simultaneously to

form a new pattern of economic development characterized by diversified forms and multiple levels as in Guangdong and Jiangsu provinces, bring about a new situation of coordinated development in different sectors of the national economy and give impetus to rationalizing China's industrial lineup.

3. Put further emphasis on the focal points of economic development strategy and make three relatively large breakthroughs. The first should be in grain conversion, developing animal husbandry and the fodder and food industries and readjusting the crop mix. The second should be in the technical transformation, equipment renovation and reinforcement of industrial enterprises. The third should be in the development of township and town enterprises, the collective economy and tertiary industries.

4. Further strengthen "external assistance and internal cooperation" and change the closed economy to an open one. Yongji County is near two cities--Jilin and Changchun--and "three institutes"--the Zuoja Special Product Research Institute, the provincial Silkworm Research Institute and the Municipal Agricultural Research Institute--therefore, it is fully capable of developing horizontal economic ties to solve the problems it encountered in restructuring the industrial lineup.

5. Further readjust the professional lineup of leading bodies by promoting middle-aged and young cadres able to handle economic work, especially industrial and sideline production. At the same time, we should use multifarious methods to help existing members increase their knowledge in the commodity economy, improve cadres' quality and open new prospects in the work of Yongji County.

#### City Develops Human Resources

Changchun JILIN RIBAO in Chinese 30 Jan 85 p 2

[Article by Wang Demin [3769 1795 3046], deputy secretary of the Siping City CPC Committee: "Develop Human Resources To Revitalize the Economy in Siping City"]

[Text] The sightseeing and study tour of Guangdong and Jiangsu has been a real eye-opener. It has given us great enlightenment. A very important reason for the high economic growth rate and great economic results of Guangdong and Jiangsu provinces is that they have liberated their thinking and dare to use a large number of managerial and administrative personnel who have knowledge in modern economics and technology and can create a new situation.

To speed up the tempo of economic construction, we need to solve funding, equipment and technological problems, but more importantly we need to solve the personnel problem and quickly improve the quality of people engaged in economic construction. Training and employing new people requires a new emotional change on the part of leaders at all levels. Wuxi County holds supply and marketing meetings twice a year to commend and award the supply and marketing personnel of work enthusiasm and outstanding achievements. Enterprises help supply and marketing personnel cultivate their grain ration plots, supply them building materials at state transfer prices when they build their

houses, and give them leaves to visit relatives on New Year's Day and other festivals. This has enabled supply and marketing personnel to have a sense of honor and responsibility to do their best work. As far as the use of talented people is concerned, one may well say that Wuxi County pays high prices for it because scientists and technicians employed in China get paid several hundred yuan a month in addition to subsidies and bonuses. Foshan City takes very good care of employees with intermediate-class technical titles. The city lends them household appliances such as refrigerators, televisions, radios and recorders, gives them a one-time subsidy of 5,000 yuan for furniture, and assigns them an apartment of three rooms and one hall.

Compared with the cities and counties of Guangdong and Jiangsu provinces, we need to do all we can to catch up in the employment of talented people.

We should continue to liberate our thinking, further eliminate the influence of "leftist" ideas and deepen our understanding of the strategic importance of talented people. Our city began employing talented people quite early. Since 1980, we have recruited scientists and technicians nationwide to help develop the economy of Siping City. We should continue to implement the preferential policy to facilitate the work of recruiting people outside the city. At the same time, we should also do a good job in utilizing and developing local human resources and lift all restrictions on the employment of talented people. Since the 3d Plenary Session of the 11th CPC Central Committee, our city has continuously readjusted the leading bodies of state-run enterprises and greatly improved the age, intellectual and professional lineup of management cadres. However, compared with the enterprises of some counties and cities in Guangdong and Jiangsu provinces, there is still much to be desired in the quality of our cadres. It needs to be improved as soon as possible. Most leaders of township and town enterprises in particular are the "settlement type" or the "special treatment type" cadres who are old, poorly educated and in poor physical condition, and therefore cannot meet the needs of economic construction and development. Effective measures have to be adopted to readjust them and promote young educated cadres who have managerial skills to higher positions. Furthermore, we have failed to pay proper attention to the supply and marketing contingent in the past. Some people thought supply and marketing personnel were dispensable because they just "loaf around and buy and sell some stuff." We should change this traditional concept and establish, as Guangdong and Jiangsu provinces have, a supply and marketing contingent suited to the needs of our city's economic development.

Increasing intellectual investment and doing a good job in the training of talented people is a project of vital and lasting importance. We must not begrudge money and time spent on it. On the one hand, we should continue to help existing scientists and technicians update and renew their knowledge. On the other hand, we should use different channels such as study classes of selected people and on-the-spot training to speed up the training of talented people in demand. We should manage well various forms of sparetime cultural and technical schools for staff members and workers such as television universities, and vocational, correspondence and sparetime schools, restructure the system of secondary education and create a good study and work environment. To revitalize the economy in Siping City, we should make sure that everyone puts his talent to good use.

## County Promotes Township Enterprises

Changchun JILIN RIBAO in Chinese 30 Jan 85 p 2

[Article by Yu Wenfa [0060 2429 4099], secretary of the Dongfeng County CPC Committee: "Learn From Hainan Experience and Vigorously Develop Township and Town Enterprises"]

[Text] The trip to Guangdong and Jiangsu has been a real eye opener. It has given us many things to talk about. The changes in Hainan County of Guangdong Province after the readjustment of industrial lineup in rural areas have given us great enlightenment. We must follow the road of developing agriculture, industry and sideline production simultaneously, as Hainan County has. Proceeding from the reality of Dongfeng County, this year we need to solve five problems that prevent township and town enterprises from making substantial development.

First, we need to solve the problem of unsuitable leading forces. In the distribution of leading forces, we should reverse the past ratio between those in charge of grain production and those in charge of township and town enterprises. All secretaries of township and town CPC committees should take care of general work with emphasis on township and town enterprises, whereas mayors of townships and towns should concentrate only on township and town enterprises with the assistance of full-time leading cadres. We should boldly promote those people of specialized households who are good at making money and achieving prosperity to the leading positions of townships (towns) and enterprises. Second, we should solve the problem of unsuitable organs. We should carry out a general consolidation and readjustment of all township and town enterprises and corporations and assign, according to their needs, three to five competent people. Third, we should solve the problem of unsuitable technology. We should keep local resources in mind, focus on training and compete for foreign support. We should spare no investment in training and no reward in recruiting. Fourth, we should solve the problem of unsuitable information systems. We should establish responsive and extensive information networks to serve the development of township and town enterprises. Five, we should solve the problem of unsuitability in the execution of policies. From now on, powers that should be given to enterprises should be completely given to enterprises; restrictions which our county has the right to relax must be resolutely relaxed. We should not stick to stiff rules and regulations when we can be flexible. If we are sure that something is conducive to both the state and the people, we should defy the risk and resolutely and bravely go for it.

In addition, we should consider the development of village-run enterprises and individual enterprises as a key task. These enterprises have various funding sources, diversified production activities and flexible management methods. Because they are small, they can change direction quickly; therefore, their ability to survive is strong. They can provide markets for each other, supplement and serve each other and help rationalize the industrial lineup of rural areas.

## District Improves General Situation

Changchun JILIN RIBAO in Chinese 2 Feb 85 p 2

[Article by Zhang Weilu [1728 4850 6922], secretary of the CPC Committee of Tiedong District of Siping City: "Mobilize the Whole Party To Do Economic Work and Enliven the Overall Situation"]

[Text] I used to think a trip to the south was a lark. Now I feel completely different. Last December I went to Guangdong and Jiangsu on a sightseeing and study trip. I felt a kind of invisible pressure as my field of vision was being widened.

The pressure came from comparison. The combined gross value of industrial and agricultural output for Foshan City and Nanhai County of Guangdong Province was about 600 million yuan in 1977. By 1984, the figure reached 2 billion. The annual growth rates of their urban enterprises and township and town industries are 30 and 46 percent respectively. Gross valued industrial and agricultural output in our Tiedong District was only 100 million yuan last year. Our annual industrial growth rate hovers about 10 percent.

The difference in the growth rate shows differences in thinking and work. First, our thinking is not as liberated as theirs. Second, we do not have as much initiative as they do in technological transformation. Third, we do not have as many ways to utilize funds as they do. Fourth, our strides are not as big as theirs in recruiting talented people. These four inferior aspects show that they clearly understand the guiding ideology of mobilizing all party members to do economic work. Using Guangdong and Jiangsu as a mirror, our district CPC committee has corrected understanding, unified thinking and formulated a district economic development plan and measures to fulfill the plan.

It is necessary to establish the belief that the whole party should pay attention to economic work. Members of the district CPC committee should make breakthroughs in methods of leadership and workstyle. Members of the standing committee of the district CPC committee should spend over a third of their time on investigation and research and everyone must establish ties with a certain enterprise to help it solve problems, make plans, establish links with other enterprises and render better service.

There must be a great breakthrough in technological transformation and technology transfer. As of today, we have carried out 25 such projects. When completed, they can help increase output value by 12 million yuan this year. As far as "foreign affairs" and "imports" are concerned, decision-making power should be given to enterprises and the district should make overall planning and coordinate, guide, supervise and inspect them so as to render better service.

Based on the concept of recruitment in the new period and proceeding from the reality of district, neighborhood and township enterprises, it is necessary to make a new breakthrough in recruiting talented people. It is necessary to recruit people from all over the country and give preferential treatment to

scientists and technicians who are willing to work for collective, township and town enterprises. This can attract more scientists and technicians to our enterprises and inject new energy into enterprises.

#### County Develops Advantages

Changchun JILIN RIBAO in Chinese 2 Feb 85 p 2

[Article by Luo Baofu [5012 1405 1381], mayor of Qian'an County: "Give Play to Our Advantages and Vigorously Develop Township and Town Enterprises"]

[Text] After following the leading comrades of the Jilin Provincial CPC Committee to Guangdong and Jiangsu for sightseeing and study, I felt more urgency to catch up and more determined and confident in revitalizing the economy of Qian'an County and making more contributions to the four modernizations.

In light of reality of Qian'an County, we drew up new plans for developing township and town enterprises in the county and defined a clear development orientation. This year, township and town enterprises will achieve 10 million yuan of output value and 1 million yuan of profits. To achieve this goal, we should develop our strong points, avoid weaknesses and give full play to our advantages. In developing township and town enterprises, we should focus on the food processing, fodder processing, building materials and building industries in the future. We have plenty of raw materials and many markets to develop the food industry. Our county has a fairly high yield of potatoes, soybeans and sunflower seeds. Using this advantage, we can vigorously develop starch factories, oil mills, beancurd factories and the precision processing of soybean products. We should ensure that every village is engaged in the processing industry.

The fodder industry has a bright future in our county. We should strive to establish, within 2 to 3 years, an initial form of processing and marketing system in every township and town, ensuring that every township has a compound fodder processing factory and every village has a mixed fodder processing factory. The building materials and building industries are a "short leg" but are in great demand in our country. Therefore, we should vigorously develop brick, tile and various other light building materials industries and actively organize construction contingents to meet the needs of the vast rural areas.

In addition to the key points mentioned above, we should vigorously develop tertiary industries including commercial, transportation, technical and household service which is relatively weak in rural areas. We should strive to make a success of enterprises in this field in a short time. We should also do a good job in "three imports" and "three foreign affairs," be geared to other counties, districts, provinces and countries, ensure that "we go to market when there is no fish in the river and turn to neighbors when there is no water in the well." We should be determined to do whatever is conducive to the state and the people and profitable, compete for large businesses, make large amounts of money and enable the people to become rich as soon as possible.



DOMESTIC TRADE

BRIEFS

**GUIDELINE 'QUALITY FIRST'**--Beijing, 19 Apr (XINHUA)--The WORKERS' DAILY today urges close attention to quality control in the course of the ongoing economic reforms. Over the past few years, the paper says, the quality of most Chinese manufactured goods has improved generally thanks to streamlining enterprise management and upgrading technical work. "However, the quality of some products is very poor indeed," it notes. According to a recent survey, 30 percent of 517 varieties of beer from 228 breweries across China are below state-set standards, the paper quotes an official of the State Administration of Standards as saying. Quality of many household appliances, including refrigerators and TV sets, dropped. Many factory directors overemphasize profits and pursue high growth to the neglect of product quality, the paper points out. "Quality first" is the guideline for China's economic construction, it stresses, calling on all workers and executives to concentrate attention on improving product quality and reducing consumption of raw materials and energy. [Text] [Beijing XINHUA in English 0556 GMT 19 Apr 85]

**SHANDONG TO SELL MORE GOODS**--Shandong Province plans to soak up 1.5 billion yuan in excess money circulation this year by expanding commodity sales, the newspaper ECONOMIC INFORMATION reports. To meet the goal, retail departments at all levels in the province have been told to boost clothing production and sales, to put more pork and eggs on the market, to develop food processing industry and to push sales of jewelery by setting up special sales counters. In the first 2 months of this year, the total sales in the province's state-run stores reached 3.6 billion yuan, up 13 percent over the same period a year ago. Shandong Province is not the only area of China troubled by excess currency in circulation. In Zhejiang Province, the city of Hangzhou withdrew 136 million yuan from circulation in the first quarter of this year, compared with 221 million yuan for the whole of 1984. The city spared no effort to increase production of consumer goods and textile products. As a result, the city's light industrial production rose by 37 percent in the first 3 months of 1985. Another way to absorb excess currency, the newspaper noted, is to develop tourism, catering, communications and recreational services. [Text] [Beijing CHINA DAILY in English 24 Apr 85 p 2]

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

LARGE CONTRACTS ANTICIPATED FROM SINO-U.S. MEETING

OW282012 Beijing XINHUA in English 1855 GMT 28 Apr 85

[Text] Washington, 28 Apr (XINHUA)--Chinese and American businessmen will gather here from 7 to 9 May on an unprecedented go-down-to-business meeting that may result in contracts to the tune of millions of U.S. dollars.

According to Ding Chen, director of the China International Trust and Investment Corp and head of the firm's North American bureau, about 50 Chinese company executives, engineers and some Chinese trade officials are due here next week for the meeting with businessmen from over 200 U.S. enterprises.

"It will be the first of its kind in Sino-American economic relations," Ding told XINHUA today. A graduate of the University of Pennsylvania and Harvard University, Ding is a key figure in arranging the "dialogue between U.S. and Chinese entrepreneurs."

Ding said Chinese delegates are bringing more than 100 proposed projects here, mainly of plant renovation in such fields as light industry, machinery and textiles. These delegates, coming from Beijing, Tianjin, Dalian, Jinagsu and other industrial bases, are empowered to make direct purchase here and, if possible, to make joint venture deals in certain areas. "However, this is not the most important feature of the coming meeting," Ding said. "What is more important," he said, "is that we (Chinese businessmen) are trying to reach the so-called mid-market U.S. enterprises, i.e., the medium or small-sized enterprises whose products and technology may be of interest to us. Because these enterprises do not always have the means to go to China, this meeting will provide an excellent opportunity for them to reach us."

He said that China has 400,000 enterprises waiting to be modernized. These enterprises, he added, are soundly equipped but lack only in certain aspects, such as certain technologies. Therefore, they can be transformed into very efficient plants of first rate.

So far, the responses from the American side are very enthusiastic, Ding said. "We estimate that deals to be made at the meeting, either by direct purchase or otherwise, will reach between 30 and 50 million dollars. Besides, it will open way for more," he said.

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

PRC, SWEDEN PLAN BROADER ECONOMIC, TECHNICAL TIES

OW201738 Beijing XINHUA in English 1631 GMT 20 Apr 85

[Text] Beijing, 20 Apr (XINHUA)--Chinese and Swedish consumer cooperatives plan to broaden the scope of economic and technical cooperation and hope to conclude a long-term agreement for this purpose.

This was disclosed by officials at the All-China Federation of Supply and Marketing Cooperatives (ACFSMC) here today while briefing reporters on a new round of talks with a visiting Swedish cooperative delegation held this morning.

The delegation, led by Leif Lewin, president of the Swedish Consumer Cooperatives Federation, arrived here on 15 April.

Lewin said earlier that his delegation had come to explore possibilities of cooperating with the ACFSMC and study ways of helping China build cold storage.

The Swedes also showed interest in buying Chinese products and sharing technological information with China.

Swedish Ambassador and Mrs Lars Bergquist gave a reception this evening on the occasion of the visit of the delegation.

Pan Yao, acting president of the board of directors of the ACFSMC, and officials from the Chinese Ministry of Foreign Economic Relations and Trade were also present.

CSO: 4020/209

FOREIGN FIRMS SHOW INTEREST IN HAINAN ISLAND

OW241845 Beijing XINHUA in English 1448 GMT 24 Apr 85

[Text] Guangzhou, 24 Apr (XINHUA)--Hong Kong, Macao and foreign firms have invested more than 100 million yuan in over 100 projects in Hainan, China's second largest island, since it was designated to open to the world in 1983.

While pleased with this initial result achieved under the open policy, local authorities called attention to the growing interest shown by foreign firms in the island's development potential.

Testifying to this is the 18 agreements and letters of intent signed since the beginning of this year on projects of construction, transport, development of energy production, farm machinery, building materials and tourism.

An oil-exploration contract between Hainan and Australian firms will be signed next month, according to local officials.

Australian, American, Japanese, French and Singapore companies have also expressed interest in the development of the oil resources in the northern part of the island.

French and Swiss companies have signed letters of intent separately with local authorities on building a hydroelectric power station in the western part of the island with a generating capacity of 220,000 kw.

Japanese firms have already contracted to design a tourist zone at Sanya, an important trading port on the southern tip of the island, and expand the Sanya airport.

More than 400 million yuan will be used this year on infrastructure construction on the island, 12.9 percent more than last year.

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

FOREIGN COOPERATION IN NONFERROUS METALS INDUSTRY

OW261343 Beijing XINHUA in English 1222 GMT 26 Apr 85

[Text] Beijing, 26 Apr (XINHUA)--A number of cooperative projects concerned with nonferrous metals are now being negotiated between China and other countries, Fei Ziwen, managing director of the China National Nonferrous Metals Industry Corporation, told a press conference here today.

The projects are related to the modernization of China's existing enterprises, development of copper, lead, zinc and bauxite mines. Also on the agenda is construction of aluminum and magnesium smelting plants.

The forms of cooperation comprise compensation trade, joint ventures, co-designing, cooperative manufacture of equipment and exclusive foreign investment.

The managing director said that a feasibility study of a large aluminum plant in the Guangxi Zhuang Autonomous Region, undertaken by China and Britain, was expected to be completed in July, and more foreign investors would be welcome.

It is learned that joint cooperation in designing nonferrous metals projects is also being undertaken by Chinese technicians and their counterparts from the United States, Sweden, Federal Germany and Australia.

In the past 2 years, the total number of cooperative projects has reached 18.

Since the nonferrous metals industry was a priority in China's national economic development, Fei said, the prospects of cooperation in this field were bright.

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

FOREIGN FIRMS HAVE OVER 1,000 OFFICES IN PRC

OW261234 Beijing XINHUA in English 1226 GMT 26 Apr 85

[Text] Beijing, 26 Apr (XINHUA)--More than 1,000 enterprises from over 30 countries and regions have set up resident representative offices in China, an official from the Administration of Industry and Commerce told XINHUA today. He said these resident offices have sprung up since 1979, when China started pursuing a policy of opening to the outside world while invigorating the domestic economy. In 1984 alone, nearly 400 such offices were opened in Beijing and other major cities.

Japan has opened 288 resident offices in China, ranking first. Next are Hong Kong and Macao with 228 offices, and the United States with 124. Of these resident offices, more than 550 are in Beijing, 150 in Guangzhou, 120 in Shanghai, and the remainder in Tianjin and other cities.

Over half of them are engaged in trade, with the others in the banking, oil exploration and development, aviation and tourism.

Enterprises from Europe and North America which have set up offices in China include such big companies as Du Pont China Ltd and Mobil Polymers International Ltd from the United States, Bayer Company from the Federal Republic of Germany, [name indistinct]-Instruments S.A. from France, and Bell Telephone Manufacturing Co from Belgium.

Resident offices have been set up not only in Beijing and coastal cities but also in inland cities like Harbin, Lanzhou and Chengdu, to expand trade and economic and technical cooperation with these areas.

These offices have helped promote overseas investment in China. Statistics from the Ministry of Foreign Economic Relations and Trade show that more than 700 joint ventures were approved in 1984, more than the total for the preceding 5 years.

To date, Sino-foreign joint ventures have been started in 27 provinces, autonomous regions and municipalities directly under the central government.

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

HU PING DELIVERS FUJIAN PROVINCIAL GOVERNMENT WORK REPORT

Steps to Open Fujian Further

OW271404 Beijing XINHUA in English 1304 GMT 27 Apr 85

[Text] Fuzhou, 27 Apr (XINHUA)--Opening wider still is the keynote of a Fujian provincial government work report delivered today by Governor Hu Ping.

Addressing the opening of the third session of the Sixth Provincial People's Congress, Hu Ping pledged "faster, better" steps to advance the province's international economic intercourse.

Fujian, in east China, is now pioneering the implementation of the open policy with increased autonomy granted by the central government to attract Hong Kong, Macao, overseas Chinese and foreign investment.

Last year the province concluded 262 economic cooperation contracts, involving use of foreign investment and loans amounting to U.S.\$254 million. The number of contracts concluded between 1979 and 1983 was 213, involving U.S.\$176 million, Hu Ping said. This year, he said, the province will strive to attract more foreign funds.

The import of technology and equipment will also be increased to upgrade the province's energy, electronic, machine-building, food, textile, garment, building materials and other industries as well as its transport.

All in all, Hu said, 200 projects using imported technology will be put into operation this year.

Increased exports constitute another major task for the province. The governor urged authorities in the Xiamen-Zhangzhou-Quanzhou area to arrange local production in the order of foreign trade, industry and commerce.

The area in southern Fujian has been designated by central authorities to produce in line with the world market, like the Pearl River delta in Guangdong Province.



The total volume of the province's imports and exports registered an 11.1 percent increase over 1983, and the increase for exports was 7.4 percent. "Increased imports through restructuring of the foreign trade set up will be a major task for the province," Hu said.

Xiamen Special Economic Zone, which includes the entire Xiamen Island facing Taiwan across the Taiwan Strait, will continue to receive priority in development, he said.

Efforts will also be intensified to further open Fuzhou, the provincial capital, and develop the southern Fujian triangle area to better serve the needs of the international market, Hu added.

Xiamen, Fuzhou, Zhangzhou and Quanzhou will be the "foreward positions" for the endeavor to expand the province's international economic intercourse, with a view to boosting the province's economic development as a whole, Hu Ping stressed.

The governor called for efforts from all sides--the government, collectives and individual citizens--to boost tourism.

In 1984, he said, Fujian received more than 200,000 foreign, overseas Chinese, Hong Kong, Macao and Taiwan tourists and other visitors.

#### Work Report on Priorities

OW271603 Beijing XINHUA in English 1505 GMT 27 Apr 85

[Text] Fuzhou, 27 Apr (XINHUA)--Fujian Governor Hu Ping today called for training more competent personnel with a view to boosting foreign investment and the province's economic development as a whole.

In the next few years, he said, the province's educational expenditures will increase at a rate higher than the growth rate of its revenue.

Hu was delivering a provincial government work report to the third session of the Sixth Provincial People's Congress.

He called for greater enrollment of students majoring in foreign languages, foreign trade, commerce, light industry, electronics, enterprise management and law. At the same time, more students and trainees will be sent abroad, Hu said.

Fujian, which faces Taiwan across the Taiwan Strait, now pioneers the implementation of the open policy along with Guangdong Province.

Energy and transport will receive top priority in the province's economic development, Hu added.

Two steam power plants will be put into operation this year in Xiamen, now a special economic zone, and Fuzhou, the provincial capital designated to open to foreign investors along with 13 other coastal cities. This will be an emergency measure to alleviate the power shortages there, Hu said.

As regards transport, the governor said the stress will be placed on tapping the potential of the existing facilities. To achieve this purpose, collectives and individuals will be encouraged to start transport businesses.

CSO: 4020/209

FOREIGN TRADE AND INVESTMENT

WORK ON TWO JOINT VENTURES TO BEGIN IN DALIAN

OW010751 Beijing XINHUA in English 0642 GMT 1 May 85

[Text] Dalian, 1 May (XINHUA)--Work will begin soon on two more joint ventures in the economic and technological development zone of Dalian, a major northeast China port in Liaoning Province.

One is the Dalian Pacific Aluminum Building Materials Company to be set up jointly by a Dalian firm, an aluminum company from the city of Fushun (also in the province) and Daqing Enterprise Co Ltd of Hong Kong.

The venture, which will involve an investment of 44 million yuan, is scheduled to go into operation late next year, with equipment imported from Western Europe. It will provide Chinese and foreign hotels with such aluminum products as doors, windows, cupboards and ceilings.

The other venture is the Dalin Orient Computer Technology Development Co Ltd, the first of its kind in the 50 sq km zone designated to attract foreign investment. It will be formed by three local firms and two Hong Kong companies--Chiu Hwa Electronics Ltd and William Electronics Engineering Company.

With an investment of 1.2 million yuan, it will initially build 600 microprocessors a year and provide a full range of services, including technology development and transfer, consultancy, maintenance and personnel training.

CSO: 4020/209

## BOR COPPER MINE AGREEMENT WITH CHINA REVIVED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 1-3 May 85 p. 9

[Excerpt] Six or seven years ago action began on long-term cooperation to open a joint Yugoslav-Chinese enterprise for exploitation of copper based on joint investment in the Province of Sechuan; in mid-1984 this action was revived. According to Mirjana Lukic, coordinator of the section on China in the Yugoslav Economic Chamber, the Bor Mining and Metallurgical Works has expressed readiness to form a joint enterprise for constructing a mine and putting it into operation in Sechuan; according to unofficial estimates, the capacities of the surface mine would be about 2.5 million tons of ore annually. Besides copper, there is also gold, molybdenum, and silver, but in much smaller quantities. With average exploitation (capacities would be similar to those at Bor), ore could be mined for at least 70 years. About 5 to 6 years, but perhaps less, would be needed, according to Jovan Milosevic, president of the business council of the Bor Mining and Metallurgical Works to establish the mine on the basis of international standards and deadlines. He said, "Our work organization for scientific research and development, the Copper Institute, and the Equipment and Party Factory are capable of meeting every international offer. We are one of the few countries which can provide an entire technological and production process, including geological exploration, mining, metallurgy, processing, and also training of cadres in China--i.e., the total technological mastery of copper production. Details of the agreement to be worked out when a delegation from the Chinese General Corporation for Nonferrous Metallurgy and Mining Administration arrive in this country the end of May.

CSO: 2800/315

## BRIEFS

HONG KONG EXHIBITIONS--Beijing, April 30 (XINHUA)--Thirty exhibitions sponsored by a Hong Kong organizer are to be held in six Chinese cities in April-December, this year, according to the China advertisement news here. The exhibitions are designed to introduce foreign technology and equipment to Chinese users and open up market for foreign business. Ten of the 30 exhibitions to be held in Shanghai will cover auto industry, garment-making technology and equipment, printing and food processing machinery, aviation and airport facilities and leather processing machinery. Six exhibitions in Guangzhou will show inland navigation transport facilities, sports gear, construction machinery and technology, electronic products and offshore engineering. Two exhibitions on plastic machinery, printing equipment and office facilities will be held in Wuhan. Four exhibitions in Shenyang will display construction machinery, equipment for indoor decoration, medical apparatus, garment-making equipment and technology and timber processing equipment. Another two on textile machinery and coal mining and processing equipment will be held in Tianjin and Taiyuan, respectively. [Text] [Beijing XINHUA in English 0826 GMT 30 Apr 85]

GUANGXI SYMPOSIUM--Nanning, 25 Apr (XINHUA)--Guangxi Zhuang Autonomous Region today opened a symposium to attract foreign investment. Attending the Guilin international symposium on economic and technical cooperation are 300 business executives from Japan, Singapore, the United States, Britain, Italy, Hong Kong and Macao. The region will propose 228 projects for discussion during the meeting scheduled to end on 5 May, according to an organizing official. [Text] [Beijing XINHUA in English 1654 GMT 25 Apr 85]

IMPORT-EXPORT COMPANIES REGULATIONS--Beijing, 19 Apr (XINHUA)--The business scope of new import-export companies should not overlap with existing ones, an official of the Ministry of Foreign Economic Relations and Trade said today. The ministry is now authorized to approve establishment of new foreign-trade firms by other central departments, local authorities and large factories. All approved companies must meet import and export quotas fixed by the government, say the regulations. They must also have qualified personnel specializing in trade, foreign languages, accounting, statistics and storage. They must do independent accounting and be responsible for their profits and losses and government taxes. [Text] [Beijing XINHUA in English 0714 GMT 19 Apr 85]

5 June 1985

## SPECIAL ECONOMIC ZONES

## SHEKOU DISTRICT ELECTS NEW MANAGEMENT COMMITTEE

OW252037 Beijing XINHUA in English 1642 GMT 25 Apr 85

[Text] Shenzhen, 25 Apr (XINHUA)--Shekou, where the famous slogan "time is money, efficiency is life" has originated, set up a new management committee through democratic election today.

The second management committee of the Shekou industrial district in Shenzhen Special Economic Zone has nine members, from whom the chairman and vice-chairmen will be elected.

The first committee, headed by Yuan Geng, was elected in 1983, according to a district spokesman.

Each committee is for a term of 2 years, the spokesman said.

Development of the Shekou industrial district began in 1979, one year before Shenzhen, adjacent to Hong Kong, was officially inaugurated as a special economic zone to attract Hong Kong, Macao and foreign investment.

With the China Merchants Steam Navigation Co Ltd of Hong Kong in charge, the district has pioneered a number of reforms including choosing leaders through election.

A huge chart bearing the slogan "time is money, and efficiency is life"--the guideline for the district's development--was displayed during the 1984 National Day parade in Beijing.

A credibility poll was held on the first committee. The rule has it that candidates must be those who have the support of more than half of the staff members. All the committee's nine members had the support of the majority.

But only four of them--including Chairman Yuan Geng and his two deputies--were re-elected, the district spokesman said.

CSO: 4020/209

SPECIAL ECONOMIC ZONES

SHANTOU SPECIAL ECONOMIC ZONE'S GROWTH REVIEWED

OW021620 Beijing XINHUA in English 1454 GMT 2 May 85

[Text] Guangzhou, 2 May (XINHUA)--The Shantou Special Economic Zone in Guangdong Province has struck 134 deals worth 1.39 billion Hong Kong dollars with overseas firms since infrastructure work began in late 1981.

The Chit Tat International Investment Co of Hong Kong, the first investor there, alone has spent 312 million H.K. dollars (about U.S.\$40 million) starting four factories and two companies.

Last year, the zone's profits and taxes amounted to 20 million yuan--more than one-fifth of its investment in infrastructure projects.

Covering 52.6 sq km, the zone--previously a wasteland--now has developed industrial and agricultural areas designated for investors from overseas, Hong Kong and Macao.

Twenty-four factories, mostly joint ventures and enterprises with sole foreign investment, operate in the Longhu industrial area. Their products, including electronic toys, carpets, clothing, plastic goods, ceramics, foodstuffs, jewelry and animal feed, are exported to Canada, Japan, New Zealand, Thailand, the United States and Hong Kong.

Workshop premises, hotels, apartment buildings, department stores, restaurants and hospitals, with a total floor space of 100,000 square meters, have been completed in the area.

Over the past 3 years, 19 contracts valued at 110 million H.K. dollars have been signed with overseas firms for the development of the 10 sq km Zhuchi agricultural area.

Overseas firms have set up farms there growing vegetables and citrus fruit, and breeding chickens, rabbits and aquatic products.

New varieties of sugarcane, maize, turnips and chilies and their growing techniques have been introduced from Japan and the United States.

Exports of shrimps, crabs, eels, fruit and vegetables from the area reached U.S.\$1 million last year.

CSO: 4020/209

LABOR AND WAGES

BRIEFS

HUNAN PEASANTS MINE COAL, METALS--Changsha, April 30 (XINHUA)--Some 270,000 peasants in Hunan Province have turned from farming to mining in the past 2 years, the provincial rural industry office announced here today. They run 5,000 small mines producing coal, tungsten, antimony, lead, zinc and tin. Small coal pits operated by peasants now number 2,500, 1,000 more than in 1983. Their annual output is 13 million tons, nearly half the province's total. Last year the output value produced by such peasant-run mines was worth 590 million yuan, over 10 percent that of the province's rural industry as a whole. China has for 2 years allowed peasants to run small and abandoned mines so as to concentrate state funds on larger ones. Agricultural banks in the province have issued 17 million yuan of low-interest loans since 1983 to small coal pits. Geological teams are encouraged to advise and train peasants. In 1984 Yuanling County earned over 17 million yuan from 200 barite, sulfur and iron mines, averaging 1,500 yuan a family. [Text] [Beijing XINHUA in English 1210 GMT 30 Apr 85]

CSO: 4020/204



TRANSPORTATION

JOURNAL ON DEVELOPING PRC RAILWAY PASSENGER TRANSPORT

HK100915 Beijing JINGJI YANJIU in Chinese No 3, 20 Mar 85 pp 37-40

[Article by Li Chunsheng [2621 2504 5116]: "Major Strategies for the Development of Passenger Transport by Rail"]

[Text] Over the past 35 years since the founding of the PRC, rail passenger transport in our country has greatly developed. Under the conditions of operation distances having increased by only 140 percent over 1949 and the number of passenger trains having increased by only 400 percent, in 1984, the volume of passenger transport by rail was 1.12 billion passenger-times, an increase of 980 percent over the 103 million passenger-times in 1949; the rail passenger turnover volume was 194.3 billion passenger-kilometers, an increase of 1400 percent over the 13 billion passenger-kilometers in 1949; and the rail passenger turnover volume was 83.9 percent of the total passenger turnover volume of all means of transport in the country.

The speed of the increase in rail passenger transport volume far surpassed the speed of the increase in railway equipment and between the needs of passenger transport and the possible increase in equipment a rather sharp contradiction exists. The average overloading factor on all passenger trains in the country was 30 to 50 percent and this phenomenon was especially serious on the passenger trains running along the railway trunk lines of the Beijing-Guangzhou, Beijing-Shanghai, Beijing-Harbin, Beijing-Chongqing, Lianyungan-Lanzhou, Harbin-Dalian, Beijing-Shenyang, and Beijing-Baotou routes. In addition, many passengers had to stay overnight in the railway stations because train tickets were not available. In particular, overcrowding on passenger trains between Beijing and Shanghai far surpassed that between Beijing and other big cities in the country. It has been found that a railway carriage stipulated to accommodate 116 passengers actually contained over 200 passengers; even the passage portions between two connecting coaches were oftentimes filled with people, sometimes as many as 30 passengers. This tense situation in passenger transport has seriously affected the smooth progress of the four modernizations. Moreover, following the intensive development of reform on the economic system and the further elevation of the living standards of the people, passenger transport by rail will see an increase on a rather extended scale and the contradiction between the volume of railway passenger transport and passenger transport capacity will become all the more acute. It is exceedingly urgent to look for a good counter-policy and adopt an effective countermeasure.

The counter-policy to relieve the acute situation in railway passenger transport is many-sided but in the near future the following measures should be adopted as soon as possible:

#### I. Employment of Economic Levers to Rationally Readjust the Passenger Transport Structure

The irrational travel transport structure is one of the factors causing the excessively tense situation in railway transport. Railway transport which really should take up the task of transporting medium-distance and relatively long-distance travelers instead carries a large number of long-distance travelers who should be carried by air transport and short-distance travelers who should be carried by highway transport. Of the 1.12 billion passengers carried by the railways in 1984, long-distance transport passengers covering on the average a distance of over 800 kilometers numbered 113.8 million, or 10.2 percent of the gross passenger transport volume by rail; the volume of short-distance transport of passengers to city suburbs was 202.8 million passenger-times, or 18.1 percent. If it is possible to transfer the great portion of these two categories of passengers to airline transport and highway transport, the tense transport situation on the railways can be fundamentally moderated. There does exist the possibility of such a "transfer".

Air services should handle the transport of long-distance travelers. Air transport is fast, safe, and comfortable. Today, since "time is money", this is the most suitable form of transport for long-distance travelers. For example, the traveling time of a passenger train from Beijing to Guangzhou is 34 hours whereas the plane ride takes only 2 hours and 45 minutes. If each day additional flights are made by three Boeing 737 airplanes and each airplane makes two round trips, then two train loads of passengers can be diverted to airplanes. Also, the distance by air between Shanghai and Urumqi is 3,635 kilometers and the travel time by air is 5 hours and 15 minutes. On the other hand, the railway line between the two cities is 4,079 kilometers long and the traveling time by rail is 79 hours and 18 minutes. The airplane is thus 15 times faster than the train. However, at present, in our country, the ratio of passenger transport by air approaches only 0.1 percent. Basically, long-distance travelers take the train and not the airplane. An important reason for this is that the price of an air ticket is much higher than that of a railway ticket. According to statistics, the domestic air passenger transport cost averages 0.0622 yuan per passenger-kilometer whereas that by rail is 0.0108 yuan. An airline ticket cost 576 percent more than a railway ticket. Hence, in order to divert part of the long-distance passenger traffic from the railways to air transport, the basic method is to solve the problem of the ticket prices.

Highway transport should, and can, share short-distance passenger transport with the railways. Highway transport is convenient, flexible, suffers few effects from natural conditions, is relatively safe, requires little investment, and can actually perform "door-to-door" transport. In recent years, in certain areas of heavy passenger traffic, diversion to the

highways of a large volume of short-distance passenger traffic from the railways has obtained rather good results. For example, in 1980 the Guangzhou Railway Bureau carried 58.71 million passengers. In 1984, it carried 169 million passengers, averaging an annual increase of 2.82 million passengers. It was found that in the railway passenger traffic composition, the relatively longer-distance traffic flow increased while the shorter-distance traffic, such as traffic to the outskirts of the city, decreased. This came about as a result of the highways diverting a part of the railway traffic flow. During the past 3 years the short-distance passenger traffic of the bureau dropped by 3.7 million passengers, or a drop of 42.6 percent. On the 24-kilometer long highway from Guangzhou to Foshan, 9 bus companies were in operation. They employed over 100 large passenger buses. The buses made 500 to 600 trips every day, carrying 22,000 to 24,000 passengers and as many as 30,000 passengers on festival days and holidays. In 1984, they carried 8.13 million passengers. In addition, some 2 million passengers were carried by small rented sedans and by self-owned vehicles of enterprises and cars operated by transport units of the people's communes. The good results of highway passenger transport diverting part of the railway passenger transport were due to the reduction of the fares on highway passenger transport. For example, the bus fare from Guangzhou to Sanshui was only 13 percent higher than the railway fare.

Unfortunately, on a national basis the results of this diversion of traffic were very poor. In 1984, some 18.1 percent of the railway passenger transport, or about 202.8 million short-distance passengers were not diverted. The basic reason was that highway fares tended to be generally high. On the average, bus fares to city outskirts were 250 percent of the railway hard-seat fares.

Employment of economic levers and readjusting and setting up a rational system of fares for passenger transport are the prerequisite conditions for the diversion of railway long-distance and short-distance passenger traffic. It is necessary to rationally readjust the fares for railway and highway short-distance transport and long-distance transport by air, and to reform the current irrational fare policy. On the one hand, it is necessary to reform the situation of charging a unified fare irrespective of the category of cars or the good or poor condition of the highway; on the other hand, it is necessary to rectify the situation of the actual cost of railway short-distance transport being higher than the fare. This will call for raising the passenger fares for short-distance and long-distance railway transport. The short-distance fares should be moved upward by 80 to 200 percent and the long-distance fares, by 35 to 75 percent. At the same time, we may consider lowering the highway fares by 20 percent and the air transport fares by 10 percent. This will enable railway short-distance transport fares and highway transport fares as well as railway long-distance transport fares and air transport fares to maintain a rational proportion which is beneficial to diverting traffic from the railways to road and air services.

On this basis, recently on the 32 sections of the heaviest passenger traffic trunk lines of Beijing-Hangzhou, Beijing-Zhengzhou, Beijing-Datong,

and Beijing-Xuzhou lines, under the conditions of some 500 passenger buses already being in operation, we may add some 4,000 passenger buses to strive to divert some 400,000 passengers every day. In air transport, provincial and city airline transportation companies should also be established to divert part of the railway long-distance passenger traffic. Highway and air transport may be operated by a number of different enterprise units. By so doing, the transport structure will be changed, forming a new passenger transport network with the railways as the center.

## II. Improving the Transport Organization Structure and Tapping the Hidden Potential of Transport

In tapping the transport potential, the effective measures consist of actively opening up diversified channels, expanding the passenger transport capacity of the railways, increasing the number of railway passenger trains, increasing the number of coaches of passenger trains, readjusting the structure of passenger train units, rationally readjusting passenger traffic according to passenger traffic demands and by means of stopping, or diverting, the traffic flow, and so on and so forth.

Increasing the number of passenger trains is the principal road to raising the passenger transport capacity of the railways. It is estimated that by 1990 the demand for passenger trains will increase by 69 percent over the current level, and that by 2000 the increase will be 165 percent. Under the conditions of the mixed use of the railway tracks by passenger trains and freight trains, the addition of such a large number of passenger trains can hardly be realized. Nevertheless, adding to the number of passenger trains is the most basic form of expanding the passenger capacity of the railways in our country. Beginning from April 1985, 28.5 extra pairs of passenger trains will run on the country's railway lines. This will increase the volume of passengers carried by over 20 million a year. From now on, the number of passenger train runs will be continuously increased.

Enlarging the composition of passenger trains is also another effective road to raising the rail passenger transport capacity. Because of the shortage of railway platforms at passenger train stations and the insufficient number of passenger coaches, the composition of each train is only 11 to 13 cars. In order to enlarge the number of coaches composing each passenger train, in recent years, efforts have been made to lengthen the platforms at a number of stations, increase the production of passenger coaches, and appropriately increase the importation of passenger coaches from abroad. This has made it possible to enable the general composition of passenger trains to be at least 13 coaches each, to increase units with 14 coaches each to 17 coaches each and some to even 20 coaches each. Altogether, 106 train units have been enlarged, equivalent to the addition of 15 pairs of direct passenger trains carrying some 16.4 million passengers a year. However, the steps taken in this direction have still been very small. It is necessary to continue the expansion work so that by 1990 the average coach composition of passenger trains will have been substantially enlarged.

Readjusting the composition structure of passenger trains. The existing system of the composition of passenger trains still adheres to the pattern of the 1950's, usually comprising a luggage car, postal car, passenger seating cars, a dining car, passenger sleeping cars and a car for guards and military personnel. Train attendants followed the trains on their long and arduous trips. This arrangement is highly wasteful but has great potential. According to 1981 statistics, the utilization rates of luggage cars and postal cars on the railways throughout the country were respectively 14.8 percent and 40 percent. This was equivalent to running 1,148 empty luggage cars and 130 empty postal cars each day, or the equivalent of 100 passenger trains. In reforming the composition structure of passenger trains, we should start from reality and should appropriately delete the car for guards, the luggage car, postal car and some of the dining cars. The attendant system should be changed from the existing fixed system to a rotation system. By so doing, each passenger train can have an additional three to four seating cars or sleeping cars. This will be an important reform. On the railways in the whole country, some 1,347 luggage cars, 320 postal cars, 600 dining cars and 304 cars for guards can be deleted and some 2,571 additional passenger seating cars or sleeping cars can be attached to the passenger trains, equivalent to running an additional 151 passenger trains and carrying some 40 million additional passengers a year.

To ensure the regular transport of passenger luggage and postal freight, special luggage and postal trains may be instituted. It is estimated that if only the Beijing-Shanhaiguan, Beijing-Shanghai and Beijing-Guangzhou lines each operates a pair of luggage and postal trains, each year, the passenger transport capacity can be increased by 15 million passengers. In addition, we can increase the capacity of luggage transport by 13 million pieces of luggage and passenger transport income by 40 million yuan, meantime achieving savings of 50 percent of the luggage and postal cars. If from the 22 pairs of passenger trains on the Beijing-Shanghai line the luggage cars and postal cars are deleted and replaced by special purpose luggage and postal cars, with equipment investment costing only about 1.3 million yuan, then not only can the volume of passengers, luggage, and postal items carried be increased but each year an additional income of 1.36 million yuan can be collected, thus recovering the investment cost within a year. It can thus be seen that a rational composition structure of the passenger trains can increase the transport capacity and improve the economic results.

Extending the localities covered by passenger trains in accordance with the traffic needs can economize on the use of the wagons and coaches and increase the passenger transport capacity. For example, the trains running on the Beijing-Guangzhou line may be extended to Shenzhen, the Xian-Wuchang run can be extended to Guangzhou, the Wuhan-Chongqing run can be extended to Chengdu, and the Hefei-Baoji run can be extended to Chengdu, and so on.

In accordance with needs, appropriately halting, diverting, and rationally readjusting the flow of passenger traffic can ease the congested conditions

on the principal trunk lines and at major passenger stations. For example, if we want to reduce the number of passengers changing trains at Beijing Station, we may organize direct fast trains starting from Shenyang, going via the Tianjin-Pukou line to the Beijing-Guangzhou line or the Lianyungang-Lanzhou line and direct fast trains from Shanghai or Nanjing to Taiyuan, and so on.

Fully bringing the role of satellite stations around large cities and towns into full play is also an effective measure to ease and moderate the congested condition of passenger transport in large cities and towns. From now on, the passenger transport stations of large cities and towns should be changed from stressing the concentration of traffic to the diversion of traffic. Ways and means should be devised to divert the passenger transport volume of central passenger transport stations in cities and towns to the small satellite stations on the outskirts of towns. For example, trains departing from and arriving at Beijing Station should be diverted to the Yongdingmen station or Xizhimen station or to West Beijing station which will soon be built. Meanwhile, the role of Zhenru station should be brought into full play to alleviate the tense situation in Shanghai Station; similarly a fuller display of the role of Pukou Station can ease the situation in Nanjing Station and the role of the north Shenyang Bei station can likewise be brought into play to ease traffice at Shenyang Station; and so on and so forth.

### III. Speeding Up the Adoption of New Technology in Railway Passenger Transport

In the development of railway passenger transport, it is necessary to continuously adopt new technology so that it may be built on a foundation of technological progress. It is necessary to strengthen domestic research, introduce advanced technical equipment from abroad, absorb scientific management experiences, actively develop technical cooperation with other countries, perform well the job of digesting, employing, and developing imported technology, and pay close attention to actual results.

It is necessary to raise the passage capacity of trunk lines which have busy passenger traffic and to technically transform the equipment for passenger transport. For example, if single-track railway lines are converted into double-track lines, the transport capacity can be increased by 200 to 300 percent; use of internal combustion engines on the railways can raise the transport capacity by 40 percent; passenger stations on trunk lines should be rebuilt or enlarged and a number of medium-sized and small passenger stations should be technically transformed; a number of new passenger stations should be built; and so on.

In short-distance sections where transport is extremely congested and passenger traffic is especially heavy, double-deckers may be employed. Double-deckers actually tap the spatial transport potential of the wagons themselves. For example, each passenger double-decker can carry 198 passengers. This means an added transport capacity of 70 percent compared with the 116 passengers carried by the Model 22 passenger coaches and



carries an increased transport capacity of 50 percent compared with the Model 25 passenger coaches. If passenger double-deckers are employed on 50 percent of the expanded units of passenger trains on the Beijing-Shenyang, Beijing-Guangzhou and Beijing-Shanghai lines, then we can greatly reduce the number of passenger trains required while passenger transport capacity will obviously be increased.

The use of double-deckers in railway transport first began in Germany in 1870. Up to now, 15 countries including the Democratic Republic of Germany, the United States, France and Canada are using them. In our country, we should, on the basis of summing up the experiences of the use of passenger double-deckers from 1958 to 1962, place the emphasis on improving the quality of the carriages so that eventually they may be extensively employed.

For the suburban areas of large cities and towns which have a dense passenger traffic, we may use carriages which have no washing room, or attendant's room, or even toilets, arranging 7 to 8 cars to form one train, with the trains leaving at intervals of from 3 to 4 minutes, very much like the subway electric trains. Thus, a great development in passenger transport in suburban areas of cities and towns may be envisaged.

In railway passenger transport, we should extensively use the electronic computer technology. The equipment in stations and inside the coaches should be improved. Service facilities should be increased so as to add to the comfort of the passengers on board the trains. We should construct, rebuild, or enlarge the station buildings, and set up hotels, car parks, and various kinds of modern and automatic facilities nearby railway stations, thus meeting the needs of the rapid development of the tourist trade. We should employ new technology to strengthen the construction of passenger coaches and technically transform the existing locomotives. We should pay close attention to the reform of the motive power in passenger transport, improve the speed of passenger trains, and actively study the development of the latest railway operation technology including the suspended type of railroading, so that in the near future, railway passenger transport can be substantially improved in quality.

#### IV. Extensively Raising Funds for Developing Railway Transport

Shortage of capital funds is an important factor hindering the development of railways in our country. To solve this problem of funds, relying on the state alone to increase its investments is insufficient. It is necessary to further expand the sources of funds and extensively raise funds to promote the development of railway passenger transport in our country.

One of the avenues for raising funds within the country is for the railway department and other units in the country to jointly raise funds for the building of railway passenger transport stations, overall service centers, and recreational grounds, under their joint operation. Profits earned will be proportionately distributed according to the amount of investments,

while investment units outside the railway departments will each year receive interest payments and principal repayments. Upon completion of the interest payments and principal repayments, the railway departments will take over the unified operation of the buildings and grounds.

Active use of foreign loans. We can cooperate with foreign interests to jointly finance the rebuilding and expansion of plants manufacturing locomotives and wagons, improving the capacity of producing railway passenger wagons. Foreign loans may also be used to build comprehensive service facilities for passenger transport in railway stations. The facilities will be under the operation of the railway departments. Taxes and profits will be delivered to the state according to regulations. During the period of the contract, dividends will be paid to the shareholders. The state will take unified charge of the repayment of principal and payment of interest.

In special economic zones or cities and towns open to the outside, foreign merchants may solely invest in the building of plants making coaches for passenger trains, or comprehensive service facilities for the railways. They may be independently operated. The products will be sold principally to international markets while the agreements may provide for a portion of the products to be marketed within the country. The foreign merchants concerned will enjoy all the special treatment stipulated for special economic zones.

In the case of railway departments and foreign merchants jointly financing and operating plants making coaches for passenger trains or building various comprehensive service facilities for the railways, investment by both parties may take the form of real estate, material resources, funds or technological patent rights. A board of directors shall be formed. Both sides may agree on the operational form to be adopted. Profits earned will be distributed according to the regulations.

We welcome contributions, loans, and direct investments from compatriots in Hong Kong, Macao and Taiwan for the purposes of developing the railway passenger transport enterprises of China. They will be accorded preferential treatment. Abiding by the requests of those making the contributions, loans or investments, the plants and railway stations built may give them special honors, or build commemoration tablets, or, according to the articles of the agreement, provide them with economic compensation.

The Hainan railway and the narrow-gauge railway in Yunnan may separately form passenger and freight transportation companies which are independently operated, are solely responsible for their own profits and losses, and may make use of their earnings for expanded reproduction.

Transportation development companies should be organized with central cities and towns or cities open to the outside as centers. They should raise their own capital funds, make joint investments or use foreign capital to build suburban railways or operate suburban electric trains for the transportation of passengers, or organize subways for the purpose of



diverting the flow of passenger traffic from the main railway stations. They should all be run independently, and allowed to fix their own transport charges, and make use of their earnings to repay loans or for expanded reproduction.

Enforcement of the above-mentioned countermeasures will be beneficial to solving the contradiction between transport capacity and transport volume in railway passenger transport, thus, really meeting the needs of the country's economic and cultural construction and development.

CSO: 4006/614

TRANSPORTATION

GU MU, LI PENG AT AIRCRAFT DEVELOPMENT MEETING

OW250645 Beijing in Mandarin to Southeast Asia and South Pacific 0900 GMT  
22 Apr 85

[Text] State Councilor Gu Mu and Vice Premier Li Peng recently held a special meeting stressing that China will speed up development of its own civil aircraft. The meeting maintained that China cannot solely rely on buying aircraft to develop its civil aviation industry, and that it should encourage the development of Chinese-made aircraft. Currently, China has achieved reasonable results in developing and manufacturing civil aircraft. The types of aircraft which have gone into production and put into operation include the Yun-5, Yun-7, Yun-8, Yun-11, Yun-12, and Yun-19 cargo planes, passenger aircraft and helicopters, totaling nearly 400. In addition, there are (Yifeng), (Fenting) and the other super-light aircraft series. Those which will be developed and manufactured include the 50-seat feeder airline aircraft and the large passenger carriers serving the main airlines.

Responsible persons of the State Council pointed out that all local governments and departments concerned should actively support the manufacture and use of Chinese-made aircraft. The meeting held that, in order to speed up the production of large passenger aircraft, China will use foreign funds to introduce advanced technologies from abroad, and will develop technical cooperation in various forms with foreign countries. In addition, China will continue to import aircraft in order to speed up the updating of its civil air fleet. The Civil Aviation Administration of China will this year add more than 20 large passenger aircraft manufactured in the United States, the Soviet Union and Europe, including the Boeing 737, Boeing 747 and Airbus.

CSO: 4006/605

TRANSPORTATION

BRIEFS

LIAONING, BEIJING AIR LINK--Shenyang, April 30 (XINHUA)--Regular air links are now available between Dandong in Liaoning Province, on the border with the Democratic People's Republic of Korea, and three major cities. The first passenger air service began Monday from the provincial capital of Shenyang to Beijing via Dandong and the coastal city of Dalian, also in Liaoning. There are two flights a week on the 1,099-km new route--every Monday and Wednesday. The service will take 2 hours and 40 minutes. [Text] [Beijing XINHUA in English 1326 GMT 30 Apr 85]

CSO: 4020/204

HONG KONG ECONOMIC TRENDS

U.S. LARGEST HONG KONG INVESTOR, EXPORT MARKET

OW270310 Beijing XINHUA in English 0244 GMT 27 Apr 85

[Text] Washington, April 26 (XINHUA)--The United States is Hong Kong's biggest export market and the biggest overseas investor as well, according to the Commissioner for Hong Kong Commercial Affairs in the United States.

The United States is Hong Kong's biggest export market and third largest source of imports. Hong Kong is the United States' eighth largest source of imports and ranks 18th in terms of exports.

Hong Kong's exports to the United States in 1984 reached 7.868 billion U.S. dollars, 2.253 billion dollars or 40 percent more than that in 1983. Hong Kong's imports from the United States in 1984 reached 3.125 billion U.S. dollars, 666 million dollars or 27 percent more than that in 1983.

In 1984, the United States took 44 percent of Hong Kong's exports, and provided 11 percent of its imports.

The United States is also Hong Kong's biggest overseas investor, accounting for 54 percent of overseas industrial investment. A survey conducted in September, 1984 by the Hong Kong industry department showed 472 manufacturing establishments either wholly or partly owned by overseas interests, with a total investment figure of 1.467 billion U.S. dollars. This was a 63 percent increase on the figure revealed in the last survey, conducted in August, 1981.

The American Chamber of Commerce in Hong Kong has identified 810 companies with U.S. associations or investment in Hong Kong, and the number is growing. The chamber estimates total U.S. investment in the territory at four to five billion dollars. Many major American companies are making new investments or expanding their activities in Hong Kong.

The United States Consul-General in Hong Kong, Burton Levin, said recently that the number of U.S. firms established or expanding their operations in the territory is increasing as Americans see a promising future for it. Hong Kong is on the threshold of significant expansion in the already considerable American economic stake in the territory, he added.

CSO: 4020/206

HONG KONG ECONOMIC TRENDS

HONG KONG LAND AUCTION SHOWS ECONOMIC CONFIDENCE

HK261520 Beijing RENMIN RIBAO in Chinese 25 Apr 85 p 2

["Newsletter From Hong Kong" by reporter Yuan Xianlu [5913 0341 4389]: "Hong Kong's Economic Prospects as Seen From a Land Auction"]

[Text] The land auction held in Hong Kong on 18 April has become the talk of the town over the past few days. Public opinion holds that the auction has expressed the full confidence of investors from various countries of the world in Hong Kong's prospects before 1997 as well as their full confidence in Hong Kong's long-term prospects after 1997.

The auction concerned was chiefly for a valuable piece of land, covering more than 10,000 square meters, located in the busy sector of Queensway on Hong Kong Island. As early as November 1982, bids were invited for the same plot of land. However, the reaction of real estate businessmen was rather cold, and no deal was made because the bids were too low. The auction of this same piece of land gained wide attention and was regarded as "an open testing of the confidence in Hong Kong's prospects."

The auction took place in City Hall auditorium. Almost all the major real estate groups in Hong Kong sent their representatives to bid the auction. In addition to reporters and visitors who came upon hearing of the event, the number of people attending the auction was over a thousand. This reporter arrived at the site 10 minutes before the auction began, and the auditorium was already packed with people, with many standing in the aisles. The auction began with the presiding official announcing that a minimum price for the piece of land was HK\$500 million. Unanimous surprise arose from among the audience, indicating that the high price was beyond their expectations. However, the representatives of the big real estate firms remained calm. Obviously, they had expected this. After about 90 minutes of fierce contention, the Swire Group finally came into possession of this piece of land by the highest bid of HK\$703 million.

The result of the auction on 18 April has created a sensation in Hong Kong. On 19 April, all the newspapers carried the news at great length, and many of them published editorials on the event. There has been much discussion in the industrial and commercial circles, which have all been inspired. It has become the talk of the town and a favorite topic among those enjoying themselves at teahouses and restaurants.

According to Hong Kong newspapers, the auction of this plot of land was unprecedented in the history of real estate auctions in the territory in terms of the breadth of representatives participating in the bidding, the fierceness and length of time of the bidding, and the high transaction price. Compared with when the land first was offered for sale 2 years ago, this forms a sharp contrast. This has served as powerful evidence that Hong Kong has bright prospects following the signing of the Sino-British Joint Declaration. In the words of the 19 April SING BO editorial: "Not only the confidence of the Hong Kong people has been restored," "but foreign investors have also shown considerably great confidence in Hong Kong's prospects." "The rapid recovery of the real estate business can be ascertained. At the same time, all aspects of the economic situation will be like grass and trees facing the sun."

For some time now, the United States, Japan, various countries in Southeast Asia, and many European countries have vied to invest in Hong Kong. However, British capital has been relatively silent. Hong Kong Governor Sir Youde has pointed out: "Investment of British enterprises in Hong Kong is on the low side, which is not understandable." In particular, when Wheelock Mardan, a British company, was sold, there was a rumor that "British capital is planning to withdraw from Hong Kong." Now the Swire Group, also a British company, has purchased this piece of valuable land and is ready to develop it with an initial investment of more than HK\$2 billion. This has demonstrated the trend of British capital. In its 20 April editorial, SING TAO JIH PAO said: "Landmark, Hong Kong-Shanghai Bank, Chartered Bank, Ewo, Gilman, and more than 100 big British corporations have been expanding their operations and opening new markets in succession recently." It is very clear that the improving situation in Hong Kong is a great attraction to investors from various countries.

At present, some people in Hong Kong are spreading the idea that it will not be too much of a problem for Hong Kong to maintain its prosperity before 1997, but it looks dim after 1997. Such talk makes people pessimistic about Hong Kong's return to the motherland, but it has been repudiated by the 18 April land auction. According to the building ordinance stipulated by the government on this piece of land at Queensway, the development firm must have it built on or before 30 June 1991. In its editorial on 19 April, ECONOMIC REPORTER pointed out: "This is a long-term investment." The actions of real estate businessmen from various countries have demonstrated that they "hold optimistic views about Hong Kong's prospects after 1997." "Had it not been for its confidence in investment based on the bright prospects after 1997, the Swire Group would not have spent such a huge sum to possess the piece of land at all cost (which has been ridiculed as 'beefing up the market')." Such confidence in Hong Kong's economic prospects is certainly not groundless. This is because the development of the economic reform and the four modernizations of the motherland is a powerful promotion and safeguard of Hong Kong's prosperity. When Hong Kong, honored as the "pearl of the Orient" returns to the motherland, it will certainly be all the more brilliant.